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THE NATION'S BUSINESS

Solvent-recycling companies like Elgin, Ill.-based Safety-Kleen, Inc., can expect more business from solvent users as a result of tighter rules on waste disposal. (Page 14)



PHOTO: STEVE WOOT-PICTURE GROUP

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It is comical, he says, that the law has been described as making things simpler for taxpayers.



PHOTO: T. MICHAEL KEENE

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PHOTO: TONY TALBOT

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Go For The Bold

By Larry Reynolds

By the time we become adults, most of us have learned to look at the world only as others see it. Entrepreneurs and artists are different in that they can look at the same things we all do and still think something different. Some spark inside them sees a new solution to an old problem. They strive to give the world something it has never seen before. Though an annual report and a painting may have nothing in common to the casual observer, upon reflection it is easy to see that the entrepreneur and the artist are kin.

Like artists, entrepreneurs are reporters of the human condition. They look for and use the ironies of life—those instances where *what should be* and *what is* do not quite mesh. The artist expresses them in paint, words and music. The entrepreneur uses the yellow pad and computer printout to turn these ironies into opportunities by devising creative, workable solutions.

What makes entrepreneurs able to tackle that most difficult thing? They have the courage, heart and drive to make their visions a reality.

Nearly everyone has the potential to be an entrepreneurial thinker. In fact, studies show the only real difference between so-called creative and noncreative people is that creative people know they are creative, while others have not learned to trust and develop their intuitive instincts. One of the first steps to unleashing that creative potential is simply to recognize that there may be no real advantage to continuing to do things the way they have always been done. This attitude plays a major role in separating the successful entrepreneurial companies from the also-rans.

True entrepreneurs look at the world with what Zenas Block, of New York University's Center For Entrepreneurial Studies, calls "creative dissatisfaction." There is not a thing on the planet that cannot be done better.

"This creative outlook is the intellectual basis of innovation. Innovation is the foundation of a company's competi-

tive advantage," says Richard Cavanagh, a principal in the Washington office of McKinsey & Company, a major management consulting firm. Cavanagh led a McKinsey study of how some of the country's fastest growing firms achieved their success.

Indeed, nearly three fourths of the companies examined by McKinsey had their first major success with a unique

"Entrepreneurs have the courage, heart and drive to make their visions a reality."



product or distinctive way of doing business. "They created their own futures by innovating and changing the rules of competition," Cavanagh notes.

Innovation is not limited to some kind of invention or breakthrough technology. It can also be a new process or different way of doing business. Maybe something as simple as new markets for old products.

And innovation does not have to be complicated to succeed, either. In fact, most innovations are relatively simple, once they are understood.

Creativity is especially important to start-up and smaller businesses lacking the financial resources to compete

head-on with bigger companies. After all, it is better to outthink your competitors than outspend them, especially if you do not have very deep pockets to begin with.

What is exciting is that we are surrounded by entrepreneurial opportunities that we can see, provided we choose to see them. The trick is first to pay attention to your small ideas, then see if they can be turned into bigger ones.

Gene Samburg was playing cards the day he got the idea that led him to become an entrepreneur. One of Gene's poker buddies happened to mention that his office had been broken into and ransacked the previous weekend. Samburg's friend was upset, but resigned to his poor fortune. It happens to even the most careful.

The victimized building was supposedly secure with a 24-hour guard in the lobby. The guard's bathroom trip, however, provided the "in" for a thief with his own enterprise.

What if, Samburg asked himself, the guard were backed up by a computer? With a central computer, a couple of technicians could monitor and control access to dozens of buildings and each of the separate offices simultaneously. It would be more effective and, in the long run, cheaper than having conventional guards provide the same protection.

After six months of perfecting the idea on his own time, Samburg showed it to his employer, one of the country's biggest manufacturing and electronics firms. The concept was rejected out of hand.

"They just said everyone knows you can't secure something as big as an office building with a computer," recounts Samburg. "That was my crossroads."

Samburg believed in his idea. He left his job and formed a company, Kastle Systems, in Arlington, Va., across the Potomac from Washington. That was 1972. Today Kastle has a lock on the office security business in Washington, holding contracts with 85 percent of the 400 major office buildings in the metro area.

And it all started with daring to think something different. ■

Guest columnist Larry Reynolds is president of Small Business Advisory, his own Washington-based news and information company.

Letters To The Editor

Emergency Care Teamwork

Your To Your Health article [September] advising organizations to train their employees in emergency care in CPR—cardiopulmonary resuscitation—presents only a partial answer to the challenge of providing timely, effective emergency life support. No matter how many employees are trained, they are useless if no one knows who they are and how to summon them to the side of the person who needs their help.

Recognizing this, the New York Business Group on Health, a nonprofit coalition of over 270 organizations, started the Health Emergency Life-Support Program—HELP. This demonstration project creates and trains volunteer teams of office building personnel and occupants. In emergencies, the teams take on primary responsibility to call

ambulance crews, control crowds and help evacuate victims.

We have successfully installed the HELP system in three Manhattan buildings, and we are getting inquiry letters from businesses and buildings around the country. Even the Internal Revenue Service wants such a program for its employees.

Leon J. Warshaw
Executive Director
New York Business Group on Health
New York

It Has To Be Sincere

The participative management that you refer to in "Stop The Abuse" [Innovators, July] is a seductive concept to many businesses seeking fast, sizable returns. If management does not firmly believe from the very beginning that

people are its finest and most valuable resource—no exceptions—then people can become its most damaged and damaging resource.

One client company that asked me to set up a participative management program showed its true colors when an executive declared, "No one below the manager level has anything to say worth listening to." This is a sad—and potentially destructive—attitude in a company determined to encourage participation by employees.

Lin Kroeger
President
The Communication Link
Florham Park, N.J.

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ting Over Giving Ulcers" [September]. Employer stress does indeed cause problems in the office for all personnel. Copies of the article went to our employers. We all commend the article for expressing our feelings!

Lorraine Lucken
Office Manager
Eagle Construction Company
Murfreesboro, Tenn.

The SBA's Future

Your article, "New White House Conference Director" [Small Business Report, September], regarding Ralph Stanley's being able to take over the reins and run a smooth White House Conference on Small Business glossed

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over the fact that President Reagan, through his personally appointed conference delegates (100 of the 1,800 attendees), was able to split the vote for the leading issue of the conference, namely maintaining the Small Business Administration as an independent agency, elevating its head to cabinet-level status and continuing the SBA programs as currently constituted.

All of the President's efforts cannot defuse the issue of the SBA's future and its importance to the millions of small businesses in the country.

Jennifer Sweet
President
Aglor Investors, Ltd.
North Hollywood, Calif.

Learning From Mistakes

Your guest column, "Forewarned Is Forearmed" [October], is one of the most gripping and important columns published in any business journal I have read recently.

Jerry Bartos
Dallas, Tex.

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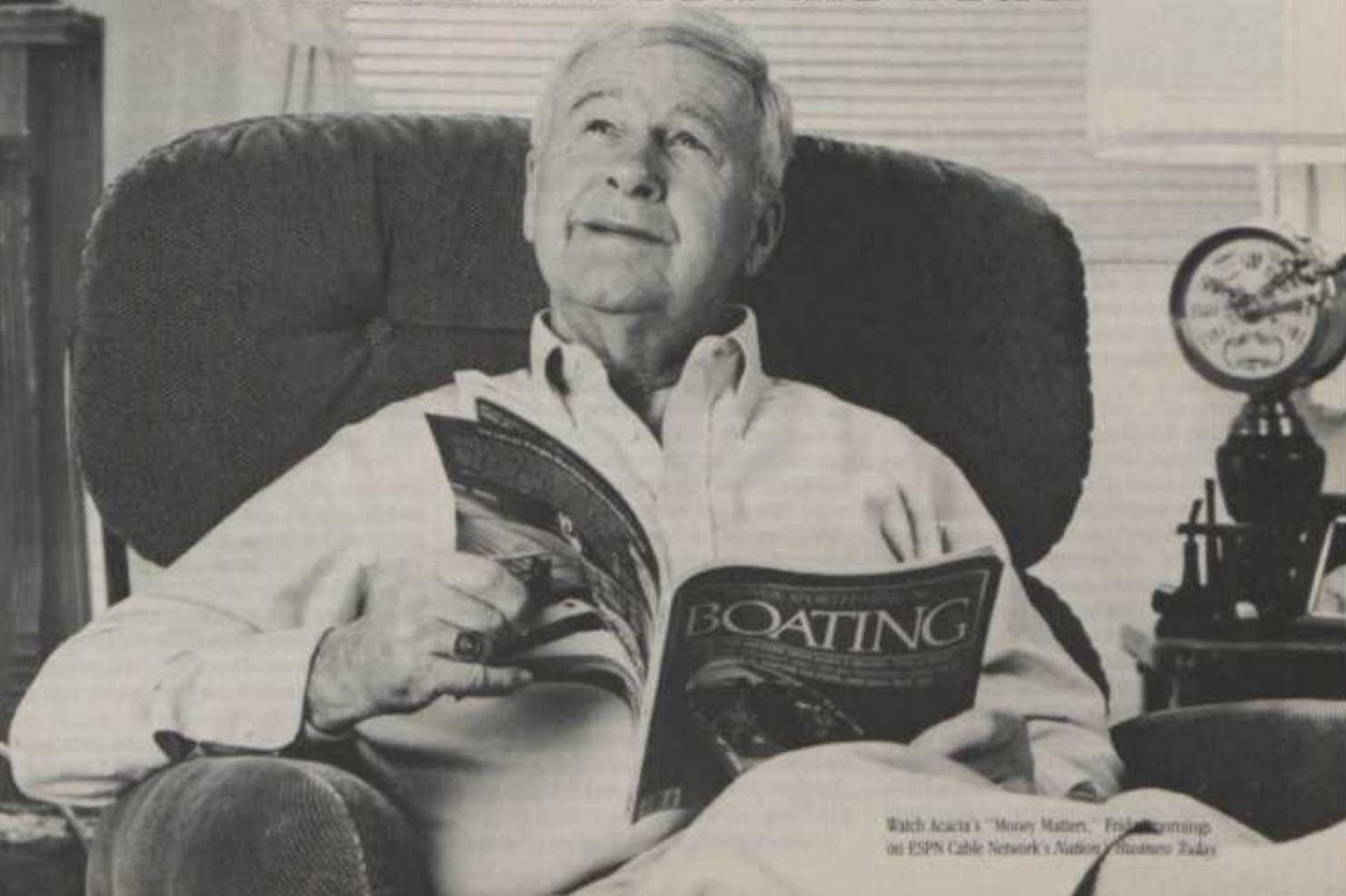


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Business Outlook

Bracing For A Slowdown In Consumer Spending



CHARTS: MARY CLARKE



An enterprising wag, borrowing from Snow White and friends, has summarized the American consumer's current financial condition on a bumper sticker: "I owe, I owe, it's off to work I go."

Indeed, we have more reason than ever to march off to work each day. Consumer debt is at a record high: Outstanding installment credit now represents 19.2 percent of disposable personal income.

Conversely, net savings are at a record low, 3.1 percent of disposable income. That is two percentage points below the historic average.

Consumer spending is continuing to be the economy's best friend this year, making the difference between slow economic growth and no growth. Although the Conference Board's consumer confidence index fell to a three-year low in August, it remains at a relatively optimistic level (see chart). But leading economists predict that the buying binge will run out of steam by year's end as debt piles up, casting a shadow over growth forecasts for 1987.

The National Association of Business Economists predicts the gross national

product next year will grow 2.9 percent, a rate slightly ahead of this year's but far below the Reagan administration's 1987 forecast of 4.2 percent.

Says David Wyss, senior financial economist for Data Resources, Inc., of Lexington, Mass.: "I don't think that consumer spending will continue to support the economy in the style to which it has become accustomed."

The style has been rather extravagant. Consumer spending rose at an annual rate of 6.2 percent in the second quarter and may exceed that figure in the third quarter because of the auto sales incentive stampede. But disposable personal income for the year is forecast to rise less than 4 percent.

"Consumers have been spending faster than growth in disposable income throughout this economic recovery," which is now four years old, says Lyle Gramley, chief economist for the Mortgage Bankers Association of America and a former member of the Federal Reserve Board of Governors. "In the process, they have built up a good deal of debt."

Debt swelled in late August and Sep-

tember when Detroit offered 1986 model rebates as high as \$1,500 and cut-rate financing of 0 to 2.9 percent. Purchases of American-made cars ran at an annual rate of 8.1 million during the first eight months of the year. The pace shot up to a record annualized rate of 18 million in early September.

As one result, "the consumer's leeway to accumulate additional debt has diminished," says Lawrence Chimerine, chairman of Chase Econometrics in Bala Cynwyd, Pa.

Even so, Chimerine says consumers are not likely to retrench to pay off existing debt—an action he and other analysts maintain would lead to recession. "Debt is at a high level," says Wyss, "but the other side of the balance sheet is that household net worth as a percent of disposable income is at its highest level since 1973." Higher net worth encourages consumers to spend more freely.

Instead of retrenching, consumers most likely will slow the pace of buying to match—rather than continue to exceed—growth in disposable income. Leading economists surveyed by Blue

Savings rate at a record low; a rush toward corporate giving; dual-paycheck employees.

Chip Economic Indicators, of Sedona, Ariz., expect income to grow about 3 percent next year, half the current growth rate in spending.

Scanning the economic horizon for a bright spot, analysts anticipate that the benefits of a weakening dollar will make up for slower consumer spending next year. Since September, 1985, the dollar has lost one third of its value in relation to the currencies of major trading partners.

As American-made goods become cheaper relative to other currencies, exports should pick up and boost the economy. As imports become more expensive, consumers presumably will buy more American-made products even as they are spending less overall, adding more business growth. "If this doesn't happen, we could be in for a recession," warns Wyss.

Corporate Charity Beats Tax Clock

James Riley started out four years ago with a modest idea. He wanted to create a nonprofit organization to recycle corporate America's unwanted inventory and real estate. The goal was to save existing jobs or create new ones by putting corporate castoffs in the hands of entrepreneurs.

Higher Horizons Foundation, Inc., models itself after Goodwill Industries, which recycles tax-deductible donations from individuals to assist the needy. The foundation recycles corporate America's tax-deductible gifts to assist struggling and start-up businesses.

Until recently, corporate charity produced a steady stream of donations and a number of entrepreneurial successes for the foundation, which is based in Joliet, Ill. But the stream shows sign of building to a torrent in the weeks ahead as businesses weigh the tax advantages of giving before December 31, when

new tax laws significantly reduce the advantages of corporate donations.

What is most surprising, says Riley, the foundation's executive director, is the sudden corporate interest in unloading whole businesses, not just equipment, inventory and land. "Forty-five companies," he says, "are talking with us about donating a subsidiary or a division." Among them are a Mississippi barge line, an oil refinery, a household products company, a plastics manufacturing business and a printing company.

There is no guarantee that any of these operations will end up under Higher Horizons' wing. Companies "are still running this idea through their legal departments to make sure they handle this in the proper way," says Riley. They may also be looking for top-dollar buyers to avoid the charity route. "They're all waiting till the last minute. I expect December 31 will be a real busy time for us."

Tax advantages of giving before year's end could be sizable, because the top business tax rate will drop from 46 percent to 34 percent. Thus the donation of a business valued at \$10 million could produce a maximum tax benefit of \$4.6 million this year versus \$3.4 million next year. "The difference of \$1.2 million is a powerful incentive to act now," says Riley.

The incentives apply to more typical corporate giving as well. "Donations of obsolete inventory and equipment are up 100 fold," adds Riley. "We've always accepted real estate, but now we've got 12 million square feet in the pipeline, all of it in empty factories. Everyone is trying to clean up balance sheets before the end of the year."

Riley estimates that several hundred people in the Chicago area, where Higher Horizons began, are working today because the foundation has placed donations in the hands of entrepreneurs. The organization is planning to set up regional offices across the country. "Our bottom line is the creation and maintenance of jobs," says Riley.

How We Work, Jobs We Want



More workers held two jobs last year than at any time in two decades, according to fresh figures from the Bureau of Labor Statistics. The dual jobholding rate rose to 5.4 percent of the labor force, which translates into 5.7 million employees cashing two paychecks.

About 9 million persons brought eight or more hours of work home each week, according to a special BLS survey of 59,500 households conducted in May, 1985.

The survey also found that 30 million persons usually worked on Saturday and 23 million worked evening or night shifts. Two thirds said they would not like to change the length of their work-week—typically 40 hours.

But most people would like to change the kind of work they do, according to a survey conducted last May by D'Arcy Masius Benton & Bowles, Inc., a New York marketing and research firm. Asked to identify their dream job, men and women overwhelmingly put business ownership at the top of their lists. Although choices differed greatly thereafter, jobs offering independence emerged as a common denominator.

Washington Roundup

Uruguay Round Goes To Free Traders

If you are in insurance, banking, transportation, advertising, high tech, agribusiness or tourism and want to expand your market, then you have reason to be pleased about something called the Uruguay Round. In September, at the windswept Uruguayan coastal resort town of Punta del Este, trade ministers representing 74 of the 92 member nations of the General Agreement on Tariffs and Trade agreed to begin reforming the world trading system.

There are as many obstacles in the way as there are signatory nations multiplied by the number of protected industries in each country. The process will take several years. Meanwhile, protectionists in the United States and elsewhere, seeing no immediate relief, could start a global trade war that would incinerate the whole reform effort.

U.S. Trade Representative Clayton Yeutter had threatened to walk out of the Uruguayan meeting if nations that have gotten rich selling in the relatively free American market in recent years did not agree to start talking in dead earnest about opening their own markets to America.

Yeutter's main point is that world trading rules (codified in the GATT) have not kept pace with the evolution of the American and other economies. For instance, more than 75 percent of the United States' gross national product comes from service industries. And yet there are no international rules providing for the free flow of service exports like insurance or transportation. Any nation wishing to protect its own service sectors can simply erect a barrier.

Yeutter and Commerce Secretary Malcolm Baldrige wrangled with India, Brazil and other developing nations and won general acceptance of services trade as a top-drawer issue. Yeutter and Agriculture Secretary Richard Lyng butted heads with farm trade competitors in Europe and got the GATT to add food trade to the agenda to be discussed in Geneva next year—the beginning of four years of negotia-

tions that will lead to a whole new set of GATT rules.

Yeutter called the Uruguay Round "a major victory for the principles of free and fair trade." Addressing a U.S. Chamber of Commerce-sponsored conference, the trade ambassador said that, in addition, GATT members had agreed to an agenda that could make it easier for Americans to invest abroad without having to run the regulatory gauntlet that now inhibits their construction of factories in much of the developing world.

The Yeutter team won crucial recognition of the problem of counterfeited goods and the piracy of intellectual property rights such as patents. This issue will receive due attention in Geneva. The Americans also convinced the others that the GATT dispute settlement mechanism is too cumbersome

and should be reformed. A quicker resolution of trade conflicts could dampen passions leading to bigger controversies, the Americans argued.

"We have taken the initial step on a long road," Rep. Bill Frenzel (R-Minn.) said at the Chamber. Frenzel, a key member of the House Ways and Means Committee's trade subcommittee, accompanied Yeutter and the others to Uruguay and bluntly told America's trading partners that speedy reform of GATT rules is needed to help assuage protectionist fever in Congress.

"Clearly," Frenzel said, "everyone there was scared spitless of the United States Congress."

Sen. Max Baucus, a Montana Democrat who is also a major player in trade disputes on Capitol Hill, said, "Yeutter has done a super, super job. We're coming away with more than we wanted."

Congress Leaves Benefits Alone

Congress left most current benefits laws intact, including one that allows setting of a mandatory retirement age.

In the two-year term of the 99th Congress, congressional committees considered numerous proposals to inject government into employer-employee affairs. But despite some last-minute scares, future business-worker negotiations will not be affected much by actions of the just-concluded Congress.

For example, the House approved bills that would make it illegal to impose a mandatory retirement age, require equal pay for jobs subjectively judged to be equal in societal worth, prohibit construction employers from operating both union and nonunion firms, mandate employer participation in state "risk pools" for medically uninsurable people and prohibit most polygraph testing in the workplace. However, the Senate refused to adopt any of those measures.

There is an exception to every rule, and it should be no surprise that the



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A pitch for investment in the Philippines; hopeful signs from the GATT talks; congressional meddling kept to a minimum.

Philippines President Corazon Aquino urges American business to invest in her country, emphasizing that she favors minimal government.

exception to this Congress' hands-off rule on benefits was the sweeping tax bill approved last month.

This measure mandated several changes to current benefits plans, including reducing the maximum time required to vest fully in retirement plans from 10 years to five and limiting contributions to 401(k) deferred-compensation retirement plans to \$7,000 a year.

Business Warms To The Lady In Yellow

Philippines President Corazon Aquino left America with the cheers of Congress still ringing in her ears and some modest aid from President Reagan's administration in her purse, on its way to her national treasury.

But perhaps more important than that was the warm welcome she received from the American business community in an appearance at the U.S. Chamber of Commerce. It is widely believed that if the Filipino economy has any chance of becoming the next Pacific Rim success story, it will need capital, technology and managerial know-how from U.S. businesses.

In her September 18 speech at the U.S. Chamber, Aquino said her country's economy "needs a fresh infusion of capital to get it really moving. And we prefer to have the capital come, to the extent possible, from the private sector."

The Philippines may have more to offer than ever before. Aquino's revolution at the polls earlier this year is viewed as having created the sort of political climate that will best foster an economic take-off.

"American business should look long and carefully at our investment possibilities," Aquino told the Chamber audience. "We invite you to consider investing in the Philippines not only because our labor is cost-efficient, but because

it is productive and will more than earn its pay. We have given labor back its motivation."

Sen. Frank Murkowski (R-Alaska), who recently visited the Philippines, says that its "economy is now in the hands of professional managers from the private sector, not cronies. Increasingly we see an atmosphere where economic policies and business decisions can be made on the basis of the economic merits."

American business people were also encouraged by Aquino's news that more democratic government will bring deregulation and streamlined investment rules and regulations. Filipinos, she said, "seek no more government than is absolutely necessary to correct the inequities of a free market in an imperfect world."

Good signs are already apparent. The Philippines' exchange rate is holding steady. Interest rates are dropping. The nation's creditors are working with Filipino officials to reshape the Philippines' debt package to allow for more economic growth. Import barriers are coming down, and there is almost no inflation.



PHOTO: KEN TUCKER

Update

Want To Help The IRS?

If preparing your personal and business tax returns seems easy, the Internal Revenue Service wants you.

The IRS is seeking volunteers for its Taxpayer Education Team, which conducts self-help classes and prepares returns for elderly, handicapped and non-English-speaking persons.

Volunteers, who will be trained by the service, will work January 1 to April 15.

For more information, write Irene Cain, Internal Revenue Service, Department of the Treasury, Washington, D.C. 20224.

Cleaning Up Hazardous Waste

Clean Sites, Inc., is an unusual example of privatization. This nonprofit independent organization is seeking to outdo the federal Superfund program in cleaning up America's hazardous waste sites.

The organization, based in Alexandria, Va., seeks to join local industries and communities for cooperative site cleanups.

It recently facilitated cleanup, at a cost of \$7 million, of a Greensboro, N.C., disposal site used by more than 175 area companies.

Tax Pledges

Almost one third of congressional candidates for this month's House and Senate elections have pledged to oppose efforts to reduce the deficit by raising the new maximum tax rates of 28 percent on individuals and 34 percent on corporations.

During the past three months, the Taxpayer's Protection Pledge Coalition—a broad-based organization of business, civic and community groups, corporations and state taxpayer organizations—has persuaded about 300 candidates to take this pledge.

The coalition, recently joined by President Reagan, believes that maintaining low rates is the key to sustaining economic growth.

Small Business Report

When hazardous waste regulations are a burden and homework is not; more prosecutions of business owners.

Taking Brakes Off Working At Home

Until the Labor Department put a stop to it last spring, the Tom Thumb Glove Company in Taylorsville, N.C., employed 85 workers to stitch together industrial gloves at home. The department cited the company for violating a 1943 prohibition it had issued on homework of this type.

Minus the homework force, the firm had to import gloves from China and Taiwan to keep pace with orders.

"We probably had to buy \$1 million worth abroad," says plant manager Bob Taylor, who continues to oversee the work of about 165 factory workers. "That's \$1 million out of the pockets of local residents."

The case quickly became a *cause célèbre* for those—including many small manufacturers like Tom Thumb Glove—advocating abolition of homework restrictions.

Then the Labor Department itself—which two years ago had ended such a restriction in one industry, knitted outerwear—joined in by announcing it intended to lift homework bans in six more areas: women's apparel, gloves and mittens, buttons and buckles, embroidery, handkerchiefs and jewelry. Other types of homework have never been subject to such restrictions, imposed by the department in 1943 under authority of the Fair Labor Standards Act enacted five years earlier.

Labor organizations, led by the International Ladies' Garment Workers' Union, strongly oppose legalizing homework. The restrictions were imposed more than four decades ago because federal officials saw no other way to eliminate substandard pay of homeworkers and unfair competition by their employers, says ILGWU President Jay Mazur.

"The dangers . . . that existed in 1943 are just as strong today," Mazur argues. "Homework is an evil that cannot be policed."

The Labor Department disagrees, citing results of its lifting in November, 1984, of the restriction on homework in the knitted outerwear industry. To be

Freda Kramer of Monticello, Me., shows supervisor Jack Brown the cotton gloves she sewed together at home during a typical week. Kramer

is one of about 30 homeworkers employed by Maine Brand Manufacturing, Inc., which produces work gloves.



permitted to use homeworkers, employers must give the department notice under a certification program. The department makes periodic inspections to determine whether the employers are meeting minimum wage, overtime and recordkeeping requirements.

Susan R. Meisinger, deputy under secretary of labor for employment standards, says the certification system has increased minimum wage compliance in the industry "and is an acceptable alternative to a total ban on the use of homeworkers."

Mazur maintains that the government lacks the manpower to police the system effectively. "The Labor Department only has 457 compliance officers to cover 50 states," he says.

Supporters of homework contend that times have changed since regulations were imposed. People increasingly choose to work at home. They may want to remain at home with small children, to avoid such work-related expenses as transportation and special clothing, or to work part-time or flexible hours.

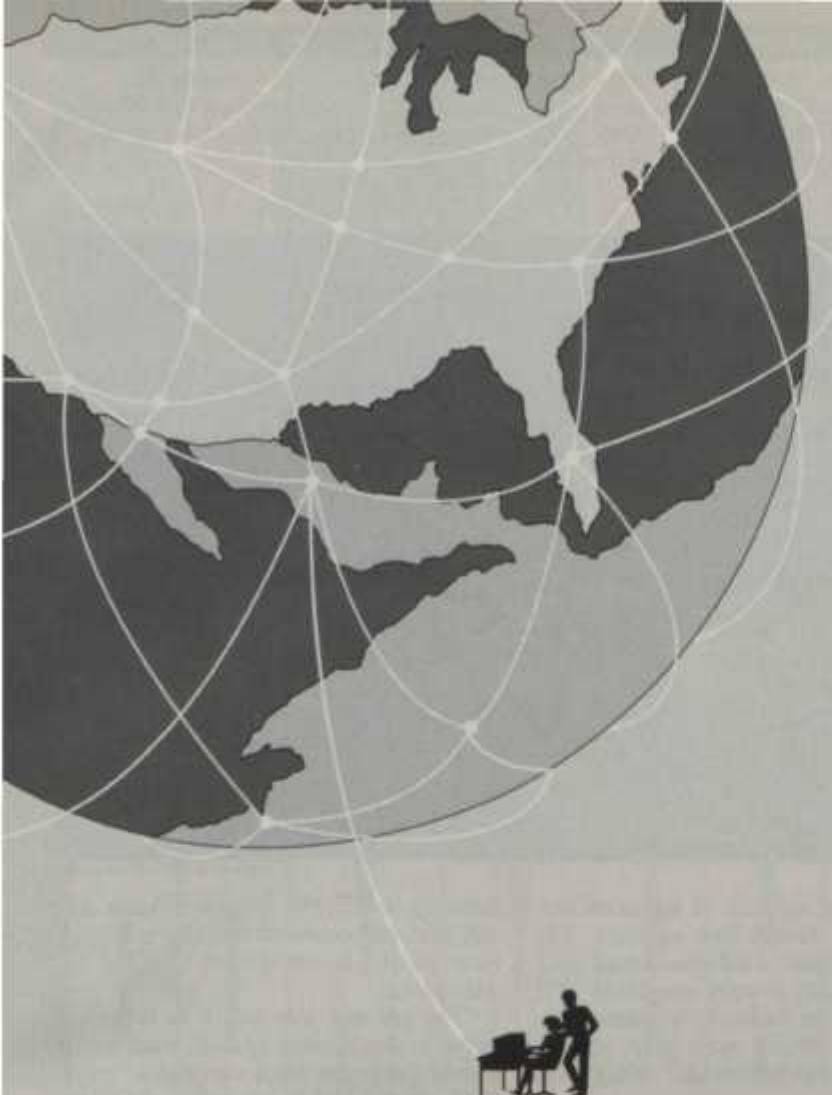
"Homework helps us with our labor

force," says Philip McCarthy, sales manager of Maine Brand Manufacturing, Inc., in Littleton, Me. The company employs 25 workers in its factory and about 30 more who stitch cotton work gloves at home. The Labor Department inspected the operation more than a year ago and took no action against the company. Though it did not say why, it was "impressed with our recordkeeping," says McCarthy.

"The bottom line is jobs," says Michael Avakian, general counsel for the Center on National Labor Policy, a Springfield, Va., group that opposes homework restrictions. "Lifting the ban would increase job opportunities."

It also would increase business opportunities, says Marc Behr, of Edison, N.J., who assisted his wife, Marion, in establishing the National Alliance of Homebased Businesswomen, a non-profit self-help organization.

"If you make jewelry, buttons or buckles at home, these rules make it impossible to expand by hiring other homeworkers," says Behr. "The regulations definitely are restricting the growth of very small businesses."



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Small Business Report

New Teeth In Waste Law

The nation's hazardous waste disposal law has gotten tougher. Feeling the pinch are the neighborhood dry cleaner, auto repair shop, printer and photo processor. They are among the estimated 100,000 small businesses of all types brought under new federal regulations September 22.

On that date the law was extended to cover firms that produce between 220 pounds (half of a 55-gallon barrel) and 2,200 pounds (five barrels) of hazardous waste monthly. Businesses in this category now must send their hazardous wastes to a federally approved facility for safe disposal. Those producing less than 220 pounds a month remain exempt.

The goal is to protect the environment from an estimated 600,000 tons of toxic waste produced annually by businesses previously exempt from regulation under the Resource Conservation and Recovery Act of 1976. Amendments that Congress passed in November, 1984, directed the Environmental Protection Agency to write regulations bringing so-called small quantity generators under the law by this fall.

Used solvents are among the most common wastes produced by small businesses. Most of these can be recycled. Others include strongly acidic or caustic cleaning solutions, discarded chemical products, chemical spill residues and flammable products such as paints and adhesives.

Some businesses may find compliance nearly impossible. Twenty-one states do not have federally licensed disposal sites for hazardous wastes, and shipping wastes across state lines will be an expensive proposition. Businesses in rural areas in any state will probably have a hard time finding haulers to pick up their wastes at a price they can afford. To ease this problem, the regulations allow on-site storage of up to six tons of waste for a maximum of 270 days when the nearest disposal facility is more than 200 miles away.

The new regulations have been met with a lot of grumbling about added costs and paper work. But neither is excessive for most business owners, says Kevin Bromberg, an assistant chief counsel at the Small Business Administration. For instance, a typical dry cleaner will pay between \$1,000 and \$1,800 a year to dispose of used cleaning solvents, estimates William Fisher, vice president of the International Fabricare Institute, which lobbies on behalf of 11,000 dry cleaning businesses.

Critics of the new regulations com-

THE NATION'S BUSINESS

Safety-Kleen employee Al Dahlstrom collects old solvent, a hazardous waste, at the Transmission Shop, Inc., in Richfield, Minn. Auto repair shops

and dry cleaners are among the small enterprises affected by tighter hazardous waste regulations.



PHOTO: STEVE WORT—PICTURE GROUP

plain that the amount of waste collected does not justify the expense. The combined output of affected small businesses amounts to only one tenth of 1 percent of the hazardous waste produced in the nation each year, according to the Environmental Protection Agency.

Though penalties for violating the new regulations include jail and daily

fining up to \$25,000, federal officials admit that enforcement initially will rely more on the honor system than the legal system.

"We are not interested in bringing enforcement actions against small businesses for paper work violations," says EPA official Robert Axelrad. "At the same time, we are not going to look away from blatant violations."

One Step Ahead Of The Prosecutor

Prosecutors have stepped up efforts to bring criminal charges against business owners for workplace accidents, following the conviction last year of three executives in the case of a worker exposed to hazardous conditions that proved fatal.

The Research Institute of America, a private business advisory organization in New York, warns that some state and local prosecutors are setting up teams to investigate serious accidents.

"Although the threat of criminal prosecution for workplace accidents is relatively small, it is serious and growing," says Toni Apgar, an institute spokeswoman. "Chief executives of small companies are most vulnerable because a prosecutor must show that an executive knew about hazardous conditions in order to prosecute successfully."

The case last year involved the rela-

tively small Film Recovery Systems company in suburban Chicago. The executives were found guilty of murder as a result of the death of an employee who inhaled cyanide fumes on the job. The defendants, who denied knowing of the hazard—they said they had worked alongside workers exposed to the chemicals involved—were sentenced to 25 years in prison and \$10,000 fines.

To minimize the risk of prosecution, the Research Institute advises companies to take these precautions: Review regulations and guidelines established by the federal Occupational Safety and Health Administration; immediately investigate and document all worker complaints about hazardous conditions; inform employees of steps the company is taking to correct problems; and use bulletin boards, posters and other means to distribute information on efforts to maintain a safe workplace.



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Welcome To Tax Reform

By Joan C. Szabo

Bob Haddad, partner in charge of small business tax practice at the Boston office of Price Waterhouse, the accounting firm, says the complexity of the new tax reform law "is going to kill small business."

"Fairness and simplicity are not addressed by the law for small companies—it will be a pain in the neck to live with," says Bradford L. Roller, president of Cleveland's Swiger Coil Systems, Inc., maker of electric motor parts.

Charles "Skip" Phillippi, an Albuquerque, N.M., accountant who is chairman of the American Institute of Certified Public Accountants' small business taxation subcommittee, declares: "The only people who will see simplification are the 6 million [low-income taxpayers] who are off the tax rolls."

Rep. Richard B. Cheney (R-Wyo.) holds that legislators who presented the law as opening an era of Internal Revenue Code fairness and simplicity don't really understand it: "Many of the provisions are incomprehensible to members of Congress, let alone those people who will be required to comply." Sen. Lloyd Bentsen (D-Tex.) says, "Tax accountants and lawyers will revel in this."

Those are a small sampling of similar comments being heard throughout the country. Critics argue that, whatever the benefits of the law, smaller and medium-sized businesses will pay a high price for them in terms of vastly increased paper work and costs of professional tax advice.

"Accountants and tax practitioners are in the winners' column on this law," says Steven Dickey, marketing director for H&R Block, the big tax preparation company based in Kansas City, Mo.

In addition, interviews with numerous small business owners show, there is widespread fear that the law will

Bradford L. Roller is president of Cleveland's Swiger Coil Systems (employee Ron Hartman is at left), which manufactures electric motor parts. He predicts that Congress

eventually will make "radical changes" in the Tax Reform Act of 1986. He sees the law as a "pain in the neck."



PHOTO: BOB SCHMIDT, JR.

mean higher taxes in many cases, despite the emphasis that its congressional supporters put on its lower rates for businesses and individuals.

The apprehension sweeping through the small business community is in marked contrast to the official euphoria surrounding the measure. Much of Washington has hailed the law as (1) answering longstanding public complaints that the tax system favored special interests at the expense of the average working taxpayer and (2) recognizing business concerns that the system worked against the saving and investment needed to fuel the economy.

What Congress has produced does eliminate many deductions and preferences that were the basis for allegations that the system was unfair, and it does drastically cut income tax rates for both individuals and corporations.

But it also increases other business

taxes \$120 billion over five years to grant an equal amount in relief to individuals.

If not for the rate cuts, the bite out of business would be even bigger. Elimination of the investment tax credit on equipment purchases will raise business taxes more than \$150 billion over the five years. In addition, the law increases business taxes by scaling back depreciation write-offs on equipment and real estate, requiring certain accounting changes and eliminating the special tax treatment of long-term capital gains.

"There are really two laws," says Emil M. Sunley, tax analysis director in the national affairs office of the accounting firm of Deloitte, Haskins & Sells in Washington. "One lowers marginal rates, and the other increases taxes."

Under this arrangement, he says,

Marilyn Adams, a Washington-based reporter for USA Today who specializes in covering tax issues, contributed to this article.

For small businesses, landmark legislation mixes the good with the bad. Some will pay less in taxes, but some will pay more, and all will find life more complicated.



some companies "come out ahead and some behind." Specifically, the law reduces the top tax rate from 50 to 28 percent for individuals as of 1988 (though for many high income people, the marginal rate will be 33 percent; see "It's Your Money," page 79). In 1987, the top rate will be 38.5 percent. Owners of unincorporated businesses will be subject to these rates.

For corporations, the drop is from a top rate of 46 percent to 34 percent, with two lower rates for companies whose income is under \$75,000. In 1987, however, a corporation that operates on a calendar year basis will face a top rate of 40 percent.

Among the new law's most outspoken critics is Leo Lauzen, chairman of Comprehensive Accounting Corporation, Aurora, Ill., whose 400 franchisees serve as accountants for 20,000 small and medium-sized businesses.

"This tax bill makes small business owners the forgotten people in the United States," Lauzen says. "Congress has once again failed in its responsibilities to them."

The measure's complexities are such, he says, that any relief provided smaller businesses will be offset to the point that they will be paying 15 to 20 percent more in taxes when the legislation is fully effective.

Overall, he says, the impact of the \$120 billion in higher business taxes will fall most heavily on the nation's 16 million small firms, including those that are home-based or operated on a part-time basis.

Owners of smaller businesses and tax advisers say that, because the tax legislation is so complicated, its overall adverse effect on costs of doing business and the availability of capital will not be fully apparent for some time. They argue that claims of simplification are rebutted by just a glance at a copy of the law and supporting documents—a total of nearly 2,000 pages.

It is certain, experts say, that small

Arlington, Va., retailer David Guernsey, president of Guernsey Office Products, says he thinks it is "comical" that the tax law has

been described as a simplifier. He calls the legislation "the Accountants' Professional Recovery Act of 1986."



PHOTO © MICHAEL REZA

COVER STORY

Welcome To Tax Reform

John H. Kennett, president of Independent Publications, San Jose, Calif., says he relied on the tax laws as they were written when he recently

bought two pieces of equipment valued at over \$1 million. He is shown with his wife, Sharon, who works at the firm.



PHOTO: KAREN T. BORNHEIM

business will incur substantial additional costs for professional advice in coping with the law's provisions. "Our clients are going to see a lot higher fees," says Albuquerque accountant Phillippi. "No way can a small business keep up with this without professional advice."

Says David M. Guernsey, president of Guernsey Office Products, an Arlington, Va., retail operation with sales above \$10 million: "Comically, the law has been described as tax simplification. If anything, it's the Accountants' Professional Recovery Act of 1986."

A number of accounting firms say they foresee 20 to 25 percent more work by winter and heavy workloads for at least two years. Some expect brisker-than-usual business for five years as the new law's various provisions kick in.

Unfortunately, says Phillippi, "mom and pop operations with \$150,000 in sales don't have the cash to hire an accountant or attorney and try to do this right. The law creates a tremendous economic burden and compliance problem for smalls. They will try to comply, but what you are going to get is not full compliance."

As the tax legislation's impact becomes more apparent, pressure for change is intensifying. Some of the pressure comes from business groups concerned about provisions that they say will have an adverse impact on economic growth. However, supporters of the law claim that eliminating many breaks for business will actually free

up billions of dollars now employed less productively and will eventually spur the economy.

The two members of Congress with the most clout on tax legislation—the chairmen of the tax-writing committees—oppose revisiting the issue to any major extent in 1987. At a teleconference conducted by Price Waterhouse in the U.S. Chamber of Commerce broadcast studios, both Sen. Bob Packwood (R-Ore.) and Rep. Dan Rostenkowski (D-Ill.) said they did not anticipate passage of significant new tax legislation next year.

But Sen. Packwood did say he expects the tax reform law will need fine tuning next year. "A technical correction act will have to be passed," he said. Such bills are designed to clear up minor errors that creep into legislation. If past congressional performance is a guide, however, there will be efforts to use the technical correction bill as a vehicle for major changes.

There is concern that efforts to enact major changes could provide an opportunity to members of Congress who hope to cut the federal deficit through tax increases.

Whatever the developments in 1987, tax experts and many owners of small firms agree that the final word is still out on the landmark reform law and that sooner or later there will be additional legislation to deal with some of the most serious problems it raises. "I think there will be radical changes in it," predicts Roller, of Swiger Coil. Says Price Waterhouse's Haddad: "We haven't heard the end of this law."

For John David Stewart, president of ISA/Stewart Insurance in Shreveport, La., the new law means "I'm back where I was a year and a half ago—it hinders my ability to function." Stewart's company has yearly sales of about \$700,000.

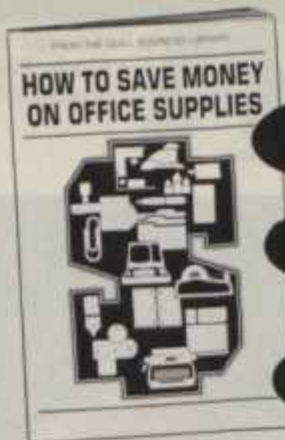
He complains that continual changes from Washington mean smalls "spend all their time reacting. My recent business decisions were based on an old set of rules, and all of a sudden the game is changed." Stewart says he has now put expansion plans on hold: "I can't figure costs."

Which provisions of the new law are the toughest for small firms? These are causing the greatest concern:

Loss of the investment tax credit: Hit hardest are capital-intensive companies, since they have benefited most from the breaks on plant and equipment spending slated for elimination. Previously, up to 10 percent of the cost of certain depreciable equipment could be deducted from a firm's taxes. Tax reform retroactively repeals the investment tax credit for equipment placed in service after Jan. 1, 1986.

The accounting firm of Touche Ross says that small firms, with their lower tax rate structure, have "benefited to a greater degree from the ITC because of the relative values of credits vs. deductions. A dollar of credit is always worth a full dollar, but a dollar of a deduction depends on your tax bracket and is thus worth only a percentage of a dollar."

Loss of the ITC "is going to devastate us," says John H. Kennett, president of Independent Publications, a San

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COVER STORY

Welcome To Tax Reform

Jose, Calif., printing operation. He says he relied on the tax laws as they were written when he recently bought two pieces of equipment for more than \$1 million. Kennett expects elimination of the ITC to have a negative impact on his cash flow—and keep him from hiring additional employees. “We will have no payroll dollars available,” he says.

Betty Mastick, president of Preferred Associates, Inc., an employee leasing firm in Jackson, Tenn., says that her company will not be affected directly by the ending of the credit but that there will be an indirect effect that will have an impact on revenues—“some of my clients will be hurting.”

Roland L. Sutton, president of Maine Machine Products, a South Paris, Me., manufacturer of precision machine parts with sales in the \$5 million range, says, “We spend a lot on machinery, and the loss of the ITC will hurt us—it will affect our profitability.” In anticipation of the new law, Sutton says, he bought a good amount of equipment last year. But he still plans to buy more in the future despite the loss of the credit: “To stay in business, we’ve got to keep buying equipment.”

On the other hand, potential winners under the new law are those that spend little on depreciable assets. These include firms in the service field—such as retailers, wholesalers and communications companies. Many have been paying the maximum rate.

Carl H. Shaver, chairman of Shaver's, Inc., a Boise-headquartered Idaho retail operation with yearly sales of around \$8 million, says that “we will get as many positives as negatives from the bill.” He adds: “The reduction in tax rates will help.”

Business meals and entertainment: Under the law, the deduction for business meals and entertainment expenses is cut from 100 to 80 percent. This change will be “a nightmare for smalls to track—much worse than the highly criticized business auto logging regulations,” Haddad says, referring to the now-relaxed Internal Revenue Service recordkeeping requirements for vehicles used both personally and for business.

David L. McDuffie, chairman of Tempaco, Inc., an employee-owned wholesaling operation in Orlando, Fla., agrees. The reduction in the meals and entertainment deduction is “a big negative,” he says. “Think of the extra complications we get into by that one move.” Since many small businesses use lunches and entertainment as a

Betty Mastick says her Jackson, Tenn., employee leasing firm will be affected indirectly by the end of the investment tax credit. “Some of my

clients will be hurting,” she says. She is shown with employees Paula Reeves (background) and Betty Honeycutt (seated).



PHOTO: JIM CHAPPELL

way to sell, he says, the change could mean that more of them “will move into advertising to do the selling.”

Employee lessor Mastick says a lot of her business is done over meals. The reduction won't make her change her ways, she says, “but I will have to absorb the difference.”

Inventory accounting: New rules for calculating inventory costs present an

added administrative burden for companies with more than \$10 million in annual gross receipts. These firms will have to track inventory-related expenses, such as employee salaries, that they have been deducting as current expenses. The new law says these expenses must be apportioned to inventory, capitalized and written off only when inventory is sold. Price Water-

How To Prepare For Tax Reform

Accountants generally agree that most small companies will have a difficult time adjusting to the new tax law because it involves so many changes in so many areas of the tax code.

Here are some hints they offer business owners:

- Carefully weigh any purchase of equipment and personal property, because the law eliminates the investment tax credit. A main concern is what the equipment's ultimate contribution to your business' profitability will be.

- Review pension plans. The law's changes will make it necessary to rewrite them by 1989.

- Calculate what your income and deductions will be for 1986, 1987 and 1988 under the new bill. The aim is to determine what expenses to take and how much income to defer.

- Determine whether it is to your

advantage to sell appreciated assets and take advantage of the preferential capital gains treatment this year, before it is eliminated.

- With the advice of a tax professional, review the possibility of electing S corporation status as a way to lower your tax bill.

- Consider leasing instead of buying equipment if you are in a capital-intensive industry. The leasing expense could be less than the alternative minimum tax triggered if property is owned and depreciated.

- Because the new law repeals the “General Utilities” doctrine, which refers to a Supreme Court decision from the 1930s that set a precedent for avoiding double taxation in liquidations, owners of businesses worth \$5 million or more should consider finalizing liquidations by the end of calendar 1986.

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COVER STORY

House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) says he does not expect significant revision of the tax reform legislation next year.



PHOTO: T. MICHAEL KEZA

house's Haddad says firms affected by the change will have "a whole new group of expenses to include in their inventory."

Says Mastick: "If smalls have to capitalize their inventory, they will face a lot of paper work, more hassles and less profits." Sandra A. Lewis, who heads an accounting firm in Nashville that bears her name, says this provision "will cost small businesses more money in bookkeeping than the government will ever raise from it." She says the change will force one of her clients, a Nashville clothing store, to invest in hardware and software for a new accounting system at a cost of \$20,000 to \$40,000.

On the plus side, the law does simplify rules for using last-in, first-out—LIFO—inventory accounting, making it easier to deal with inflation.

Pension plans: The new law contains stricter coverage rules and requires full vesting in five years, instead of the previous requirement of 10, for defined benefit pension plans sponsored by a single employer. As an alternative, an employer can provide 20 percent vesting after completion of three years' service, with the vesting increasing 20 percent for each subsequent year until 100 percent is reached after seven years.

These changes add to the administrative and cost troubles smalls face because existing retirement plans must be rewritten. "This is a nuisance," says Byrle Abbin, managing director for Arthur Andersen & Company's Washington office of federal tax services.

Depreciation: The law's depreciation changes generally will result in business plant and equipment as well as real estate being written off over a longer period. The upshot: smaller deductions each year. One major change is depreciation of equipment over seven

or 10 years, depending on the type of equipment, instead of five or three as in the past.

Most equipment write-offs will be figured using the 200 percent declining balance method—which will permit faster write-offs in the first years after an investment is made—compared with the 150 percent declining balance method used before the law change. Price Waterhouse's Haddad says that "the changed depreciation schedules are more complicated than the existing ones."

On the plus side, the law increases the cap on the amount a firm can expense—now \$5,000—to \$10,000 next year. Some small firms take an immediate deduction, known as expensing, for equipment buys, instead of using depreciation.

People in the residential real estate business think the depreciation and passive loss changes threaten their enterprises' future. If a property produces rent, its income or losses are considered "passive." Under the new law, your salary or portfolio income can no longer be offset with rental losses unless your adjusted gross income is less than \$100,000. If it is, you can take up to \$25,000 in losses on rental property that you actively manage yourself.

Hank and Patricia Auffarth, of Hank & Patricia Auffarth Proprietors, Larchmont, N.Y., own a number of rental properties and consider themselves small entrepreneurs.

"The good days are over," Hank says, because residential rental property must be depreciated over 27.5 years instead of 19, limiting the generation of tax-sheltering paper losses.

Hank wonders if the Auffarths would be better off selling their properties. The law, he predicts, will result in fewer residential rental units and higher rents.

Changes in the passive loss rules will also have an effect on leasing certain types of equipment. Though in many cases the new law may make leasing more attractive than buying (see box, page 24), it may work the other way in the case of computers.

Leo Naughton, of the Boston law firm of Gadsby & Hannah, says businesses may find it more attractive to buy than lease computers, even though in the past leasing may have been preferable because of low rentals. Rental charges have often been low because lessors formed limited partnerships with individual investors, who got tax breaks that were shared with the les-

Senate Finance Committee Chairman Bob Packwood (R-Ore.) says he expects "a technical correction bill will have to be passed next year"—but nothing more.



PHOTO: T. MICHAEL KEZA

sor—and the lessee. The breaks will now be gone.

Alternative minimum tax: Both businesses and individuals will be affected by the law's expanded minimum tax requirements. Most companies will be required to figure their taxes using the regular system at a top rate of 34 percent and again under the minimum tax method at a 20 percent rate. A firm will have to pay the higher of the two figures. Depending on the company, calculating taxes both ways could cost from two hours' to two days' extra time as well as extra fees, says accountant Phillippi.

The minimum tax—the aim is to see that all businesses pay something—must be calculated without benefit of many breaks available under the regular system. Depreciation is less generous, and there is a tax on half the difference between book earnings (reported to shareholders) and actual income (that reported to the Internal Revenue Service).

Capital-intensive companies such as steelmakers, utilities, auto makers and industrial machinery manufacturers—already reeling under the impact of loss of the investment tax credit—fear the provision means higher taxes for them.

Fiscal vs. calendar year: In the past, partnerships, Subchapter S corporations and personal service corporations (e.g., consulting, engineering or law) could defer taxes by using a fiscal year while the owners used the calendar year. This way the owners had the use of profits for a time before they were taxed.

The new tax law requires the businesses to move to a calendar year. "The shift to another year-end will naturally add some complexity," says Lorin Luchs, a tax partner in the Washington office of the Seidman & Seidman ac-

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COVER STORY

Welcome To Tax Reform

Sandra A. Lewis, who runs a Nashville, Tenn., accounting firm that bears her name, predicts that the new law's inventory accounting

provision will cost small business owners more money for bookkeeping "than the government will ever raise from it."

counting firm. "In terms of accounting fees and staff needed to close the books, you will duplicate work." For example, a partnership whose fiscal year normally ends June 30, 1987, must close the books then and issue K-1 schedules for that year, then repeat the entire process for the period ending December 31—just six months later.

Cash vs. accrual accounting: Another potential headache for smaller companies is the law's requirement that a regular corporation with over \$5 million in gross receipts can no longer use the cash method of accounting. This method generally recognizes income when it is received and expenses when they are paid.

Proponents of the cash method say it more accurately reflects the economic ability of smalls to pay taxes. With the accrual method, they say, smalls will have to pay Uncle Sam sooner.

"Income is recognized when services are rendered regardless of the fact that it may take months to get the cash," says Mario P. Borini, national director of tax and professional services for Seidman & Seidman. Further, he says, "more small companies will have to pay taxes on income which they haven't received, making it harder for them to run their businesses."

Dwindling start-up funds: Another major drawback for smalls, say experts, is the elimination of the special tax treatment of long-term capital gains. In the past, stock investments in small and medium-sized firms received a healthy tax break because of the reduced tax on long-term capital gains. The new law taxes individual and corporate capital gains as ordinary income. As a result, the top capital gains tax rate for most individuals will increase from a present 20 percent to 28 percent (though, as noted earlier, a surcharge brings the marginal rate to 33 percent at certain income levels starting in 1988). For corporations, the rate will go to 34 percent from 28. The change "reduces the willingness of investors to put funds in small businesses," says Tempaco's Chairman McDuffie.

Haddad of Price Waterhouse sees the elimination of the special treatment of capital gains as a "major setback for smalls." It will encourage more people to keep their money in the bank instead of putting it at risk in a new venture, he says. "Capital formation is the single major problem that smalls face." If smalls can't get at capital, it will be detrimental for expansion and start-ups, he adds.



PHOTO: JEFF FRAZER

Since personal rates will be lower for individuals than for companies, many small business owners may find the S corporation structure more attractive than the regular corporate form.

The S corporation enables smalls to avoid double taxation while providing some advantages of a corporation, including limited liability. Earnings are not taxed at the corporate level. Income passes to shareholders in proportion to

their ownership of the firm and is taxed at personal rates.

"I wouldn't think of starting a new company without reviewing the use of the S corporation," says McDuffie. S corporation status is "more advantageous than ever," says James C. Godbout, a partner in the Washington national tax office of the Cleveland accounting firm of Ernst & Whinney.

But the S corporation does have limitations. Critics say that distributed earnings are rarely available later for reinvestment in the company, so a key source of expansion funds is eliminated. In addition, an S corporation is restricted to 35 shareholders.

Liquidations: In the past, small business owners could liquidate a company with minimal tax consequences. When a company was sold and the proceeds went to shareholders, they were responsible for paying tax. The corporation itself paid none. Under the new law, there is double taxation—the corporation must also pay taxes. The change goes into effect next year, but closely held corporations valued at less than \$5 million will not be affected until 1989. There is partial relief from the change for companies in the \$5 million to \$10 million category over the next two years.

No wonder smaller firms are turning to tax professionals.

Rep. David O'B. Martin (R-N.Y.) believes that "it will be well into the next millenium before we truly understand what this document does."

Seidman & Seidman's Borini takes an equally long-range view of how much the law's complexity will require businesses to seek expert help: "I hope my children become accountants." ■

Albuquerque, N.M., accountant Charles W. Phillippi says the new law "creates a tremendous economic burden and a compliance problem for smalls."



PHOTO: GREG SORBER—BLACK STAR

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With the number of AIDS cases doubling every year, employment questions are becoming more widespread.

Employment issues connected with the spread of the AIDS disease in the United States are producing a growing body of legal opinion and case law.

So far, employer response to the situation has been low key, and only a few large corporations have developed specific policies for dealing with acquired immune deficiency syndrome in the workplace.

But with instances of the disease now reported in all 50 states and the number of cases doubling every year, employment questions are becoming more widespread and are affecting smaller employers:

- Can an employer ask job applicants or employees if they have been exposed to the AIDS virus? Can he make them

take a blood test for the AIDS antibody?

- What can an employer do about employees who refuse to deal with a client or a co-worker suspected of having AIDS?

- If an employee working with an AIDS victim contracts the virus, can he or she sue the employer?

The right of individuals to privacy and to fair treatment, the right of fellow workers to a safe workplace and the right of an employer to manage his business can easily conflict.

Most authorities believe AIDS victims are protected by the antidiscrimination provisions of state and federal laws covering the rights of the handicapped. This means that so long as they have no symptoms that interfere with

their ability to do their jobs, they cannot be fired.

However, the application of the federal handicapped law has been clouded by a recent Justice Department opinion suggesting that genuine fear among workers that a fellow employee might spread the disease could be lawful grounds for an employer to discriminate against the person.

The U.S. Public Health Service says normal contact among workers, schoolchildren or the public poses no risk of transmitting the disease.

Regardless of how the federal question is settled, most states have laws against job discrimination, and no two are identical. Lawyers say employers need expert advice to deal with discrimination questions. **■**

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Computerizing With Confidence

part 1



By Karen Berney

With the prices of personal computer hardware plummeting, many small businesses are seriously considering automation for the first time. But automating a business is anything but automatic. Choosing and installing the right equipment and software and making the switch from manual to electronic operations is a lengthy, anxiety-ridden and complex process.

This is the first of five articles designed to serve as a step-by-step guide to taking charge of automation.

When Roy LeDuff set out three years ago to automate his family business in Phoenix, Ariz., he thought he knew what he was getting into. Phoenix Paint Supply, Inc., has more than 4,000 line items in inventory, and "paper work was getting out of control," he recalls. "We could not afford to hire a new employee. I reckoned a computer would simplify my life—not just the handling of inventory but all my administrative and bookkeeping chores as well."

So LeDuff decided it was time to get computer-literate. He began to canvass popular trade journals and spend his lunch hour in stores comparing the bits and bytes of computer hardware. "That was mistake No. 1," he says. "I should have evaluated my software needs first and then backed into hardware."

Like many first-time buyers, LeDuff found himself frustrated by jargon and at the mercy of salespeople—many of whom, he says in retrospect, did not know the difference between a spreadsheet and a bedsheets. But providing he stayed within his \$10,000 budget, LeDuff was ready to take his chances.

That was mistake No. 2. Listening to marketing hype raised his expectations far beyond what was realistically achievable, he says.

LeDuff eventually settled on a microcomputer and a small business software package for under \$7,000. The purchase, which seemed like a bargain at the time, would cost him months of frustration and disappointment leading to the not uncommon sight of a computer unused, gathering dust on a desk.

The problem, he explains, was a mismatch between hardware and software. The microcomputer's speed was too

When you are losing business to a competitor because he is delivering quicker and better service—it is time to jump on the bandwagon.



ILLUSTRATIONS: WILLIAM COULTER

slow and memory too small to run the software efficiently. Although Phoenix Paint Supply is a small business, the volume of its inventory and daily transactions exceeded what a microcomputer could handle. Moreover, the software had so many bugs in it that "although I had better things to do with my time than sit at a terminal all day, I had to learn programming to try to save my investment," LeDuff says. "That computer became my second wife; I was spending 60 hours a week with it."

As valiant as his efforts were, they met with little success—the software was still bug-ridden. LeDuff, at the end of his rope, called in a computer consultant. Working closely with the software manufacturer, the consultant made numerous design changes in the program to accommodate the computer. But the best he managed was to automate the store's inventory. LeDuff's dream of

reaping efficiencies from computerized bookkeeping was no closer to coming true than when he had first started 18 months earlier.

At that point, LeDuff resigned himself to retiring the microcomputer system and buying the much larger and more powerful computer system he had originally considered but had rejected because of its \$20,000 price tag. From the very start, he says, "I needed a minicomputer, not a microcomputer. There was nothing on the market that would have worked for the money I was willing to spend."

Today LeDuff is the satisfied owner of a minicomputer system he describes as "fast, slick and effective." Manufactured and supported by Triad Systems Corporation, of Sunnyvale, Calif., the machine supports two terminals for point-of-sale transactions; tracks inventory, payables and receivables; and performs general ledger. These various accounting functions are "integrated," meaning that any changes in payables, receivables or inventory are automatically posted to general ledger.

LeDuff allocates an hour and a half a day to keep the system current and calls it "time well invested." He uses the system to print reports that help him spot and react to market trends.

By far the biggest change, though, has been in the area of inventory control, usually the thorniest business problem for retailers. Because LeDuff now has up-to-the-minute readings of what does and does not sell, he has minimized understocking and overstocking and thus greatly improved cash flow. Since installation of the Triad system, Phoenix Paint Supply's inventory turns have increased to the point where "I am now way ahead of the industry's average," LeDuff reports.

There have been other unexpected benefits. Payment from customers is much more prompt. LeDuff credits computer printed invoices that look more authoritative and professional than ones written by hand. "Overall, my business has a much better image," he says.

LeDuff's initial experience with automation is not atypical for small busi-

"I've got more to do than figure computer."



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important things out how to use a

Lots of people who own small businesses are using computers these days. Which is a real shock. Because many never dreamed they'd end up using one.

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The purchase, which seemed a bargain at the time, would cost him months of frustration and disappointment.

ness people. Prone to cutting corners and influenced by advertising that portrays computers as plug-in-and-go commodities, they search for the lowest-priced hardware and often wind up with "a machine one step away from a boat anchor," says Jeffrey Sachs, president of the Independent Computer Consultants Association and of Alembic Computer Services, Inc., of Mesa, Ariz.

Not surprisingly, LeDuff says he would approach automation much differently if he could do it all over again. He would focus on software first. He would turn to a consultant before, not after the fact, and be more realistic and flexible in planning a budget.

Of course, you should still shop for the best value on hardware, notes Sachs. The key is to have a well-defined set of expectations of what you want the computer to do before you walk into a store.

To begin with, you should make sure you are automating for the right reasons, advises Ronald Mansfield, president of Mansfield & Associates, a Pasadena, Calif., consulting firm.

There are as many bad reasons as good reasons to automate, he says. "You would be surprised how many small business owners want to automate simply because all their friends are doing it." Other poor justifications include:

- Pressure from middle managers who want computers primarily as status symbols.
- A desire to soak up excess cash in last year's budget.
- A compulsion to get organized. A reliable maxim is that if you computerize a disorganized operation, it will become twice as disorganized, says Mansfield.
- Demands from employees who want to look good in front of their bosses. This leads to a situation where simple memos and report writing become exercises in personal publishing.

In each of these cases the pitfall is that you are buying a computer and then trying to figure out what to do with it—a sure way to waste money, Mansfield says.

Initially, the system may be used for a few jobs, such as typing letters. But it will soon become obvious to the business owner that he has an underused asset on his hands. He is likely to respond by assigning someone the job of figuring out how to make better use of the computer or by taking on the responsibility himself. If the latter case, he is apt to get so distracted by the technology that he neglects the store.



On the other hand, there are very compelling reasons to automate. The most convincing, Mansfield says, may be that there is simply no alternative.

This becomes apparent when manual systems start to crumble, and decisions are being made by the seat of the pants. Trigger points to watch for include late payment on bills, overdue collections, understocking of popular items in inventory, escalation of bookkeeping errors and lack of timely access to important information.

Competitive pressure is also a valid reason to automate. If your traditional customers are giving their business to a competitor because he is delivering quicker and better service, it is time to jump on the bandwagon.

A third reason is to realize cost savings. In general, automation drives down costs by either reducing out-of-pocket expenses or improving productivity. Typically, businesses automating for the first time will not eliminate personnel, but once automated they can often grow without adding employees.

Finally, automation can help minimize employee turnover and unrest. For example, computerized accounting could reduce the amount of time your office staff spends on routine tasks like writing checks and posting ledgers and free up time for more challenging and creative work.

Now that you are automating for the right reasons, you have to get more specific and determine which aspects of your business are appropriate candidates for automation. Computer specialists call this rigorous exercise a "needs analysis."

There is no cut-and-dried formula for conducting a needs analysis, but a good starting point is to assess your business by size—the number of invoices printed, checks written and items in inventory, plus the level of gross receipts and net profit. Next you have to describe the manual procedures by which that information flows through your business—from the time a bill or check or piece of equipment comes in the door until it leaves.

Gauging the size of your business will help identify key thresholds associated with automation, says Daniel Goldsmith, head of Goldsmith & Associates, a Berkeley, Calif., consulting firm that specializes in developing computer applications for small businesses. For example, it is rare that a business that writes 10 invoices a month, carries 15 items of inventory and grosses \$2 million a year will need a personal computer and full-blown bookkeeping software. "Instead, limited resources would be more wisely spent on expanding advertising or acquiring more inventory," Goldsmith says.

However, if a business processes more than 500 invoices a month, maintains 2,000 items in inventory and has a mailing list of 1,000 customers, there is probably a real need for a computer and software to handle accounts receivable, inventory control and word processing, Goldsmith says.

Most small businesses are likely to fall in the middle; there may be some activities where automation makes sense and others better left as they are. For example, LeDuff has automated every accounting function in his paint supply business except payroll. With only five employees, it would have been more trouble than it is worth, he explains.

At this point you should have a clear idea of what should and should not be automated. So which activity do you tackle first? Here you have to scrutinize your manual systems. Are they adequate, where are they breaking down, how could they be improved? If your business is a start-up or experiencing a growth spurt, you may be especially concerned with cash flow management. In this case your immediate need from

For some businesses, buying a computer would be a frill. Instead, limited resources would be better

spent on expanding advertising or acquiring more inventory.

a computer system is instant access to reports showing exactly whom you owe and how much.

A good method of setting automation priorities, says Goldsmith, is to ask yourself what information you need to be holding in your hand at the end of the month to manage your business.

Another useful guide is the type of your business. The four most common varieties of small businesses—professional, manufacturing, retail, wholesale/distribution—tend to rely on programs that are the mainstays of personal computer software: word processing, spreadsheets, database management and accounting.

Most professional businesses generate mounds of documents. Consequently, word processing is invariably first on their automation list, followed by software for clocking time and billing clients.

Just as word processing is the bread and butter of professionals, database management software is ubiquitous among wholesale/distribution and manufacturing businesses, since they routinely need to keep tabs on thousands of customers. Databases are popularly used for developing mailing lists. But they also serve as the foundation for developing customized software applications. If the way you do business is unique, you probably will need to invest in customized software.

Many database programs also act like spreadsheets and vice versa. Spreadsheets make sense for virtually any business that wants to engage in long-range planning. A spreadsheet is a valuable tool for predicting the impact on sales if prices are cut or figuring out when you will break even on a new product.

Accounting is an activity that nearly every business needs to get a handle on. And, since you can now buy an entry level software package for as little as \$70, accounting is rapidly becoming the application of first choice for small businesses.

Expect a thorough needs analysis to consume a lot of time, thought and personal commitment. It calls for surveying the breadth and depth of your business, extensive consultations with your CPA and attorney and getting every employee involved in the process. Says Sheldon Needle, a Rockville, Md., consultant specializing in computerized accounting: "The quickest way to make automation fail is to generate hostile feelings among employees."



Can a business owner do a needs analysis on his own? In general, yes, say experts. There is an abundance of resources to draw on—knowledgeable salespeople, articles in trade journals and colleagues with similar problems.

But there are other issues to consider. If you are spending 60 hours a week to launch a new product, it may be logical for you to hire an independent con-

sultant to assist you in some or all stages of automation.

Even if you hire a consultant, however, bank on playing a leading role from start to finish. ■

Next month: How to shop for software and hardware.

To order reprints of this article, see page 73.

The Bottom Line: How Much It Will Cost

There are many hidden costs to getting a computer up and running. For example, along with the initial purchase of equipment and software are training,

installation and service. This table is a guide to the minimum and maximum you can expect to spend on one micro-computer system.

	LOW	HIGH
Computer with 256-K RAM and 20 megabyte hard disk drive, monitor	\$1,495	\$2,500
Letter quality printer	450	2,000
1200 baud modem	150	600
Telecommunications software	35	295
Phone installation	70	105
Generic accounting software	70	4,000
Service contract (% of hardware cost per year)	5%	10%
Installation and conversion of data for computer	Two to 12 hours at a cost of \$50 per hour	
Training		
One-hour class	25	75
On-site tutor per hour	50	100
Furniture	100	600
Supplies per year	75	125

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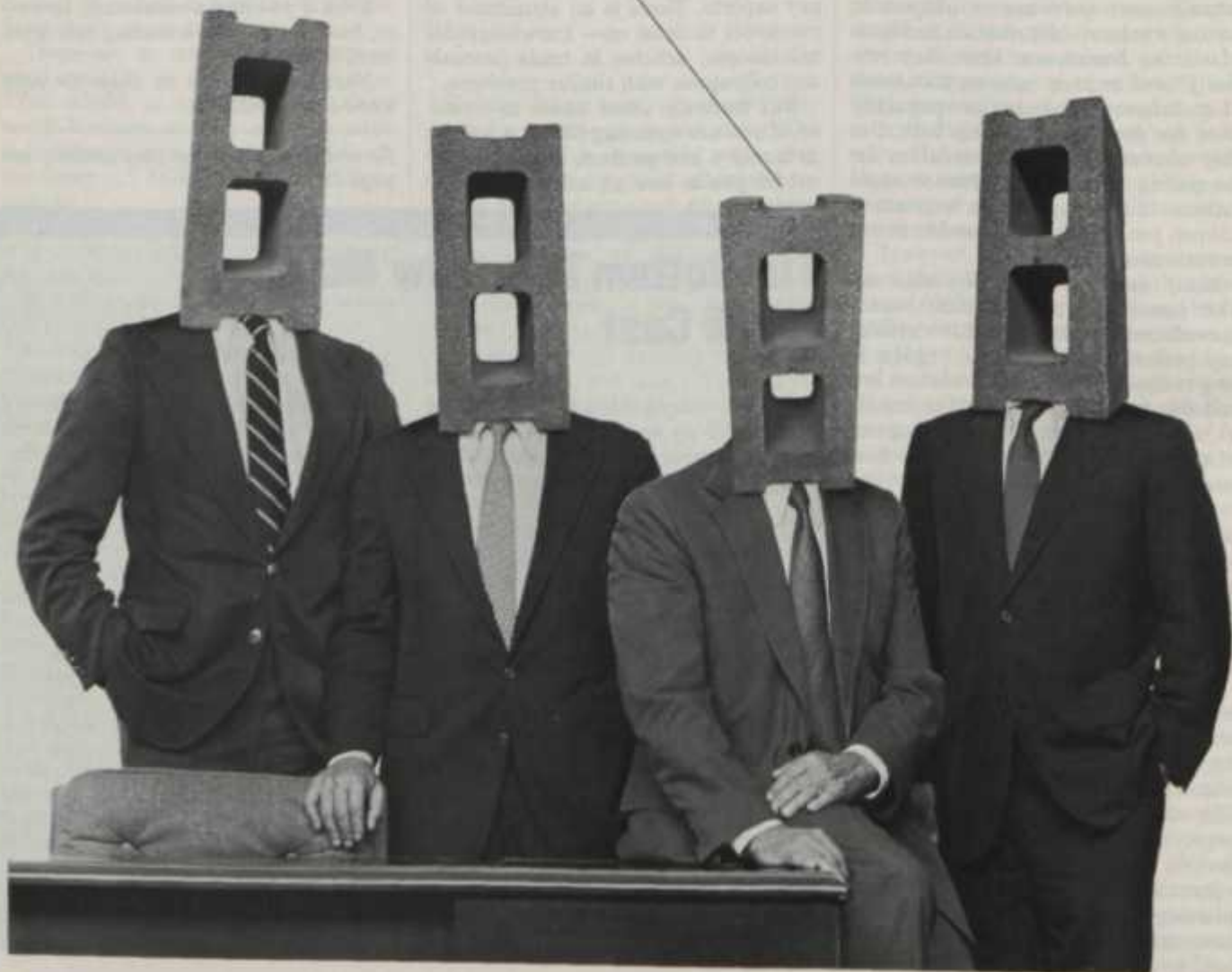
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Forecasts From Small Firms

By Herbert S. Braun, C.P.A.

Small business chief executive officers are mildly bullish on the economy's prospects for the next year, judging by a survey of 500 of them. But the same CEOs are somewhat bearish on interest rates.

"Guarded optimism is the way I would describe my view of the economy," says John De Pasquale, 44, board chairman of The Direct Marketing Group, Inc., a New York City firm providing services to businesses that sell via direct response marketing.

Says Kim Raffee, of San Diego: "I'm optimistic about the economy. What is going to be crucial to retaining that optimism is that our elected leaders in Congress take some action on the deficit." Raffee, 30, is president of Design for Living, Inc., wholesalers and retailers of flooring, window coverings and security systems.

The survey was commissioned by Ernst & Whinney—a leading international public accounting, tax advisory and management consulting firm—and conducted by Angell & Company—an independent marketing research firm—for *Nation's Business*. The CEOs were chosen at random from a statistically representative sample of companies around the country with annual sales up to \$40 million.

While more than three fourths of those responding express optimism about the economy for the next year—17 percent say they are very optimistic, and 59 percent say they are somewhat so—there is also a lot of uncertainty about the economy's vibrancy.

"My feeling is that the economy is very fragile right now," says Frederic F. Wiedemann, 63, board chairman of Wiedemann & Johnson Companies, executive benefit planning specialists in Dallas.

Thirteen percent of the respondents characterize themselves as neither optimistic nor pessimistic about the economy, 8 percent are somewhat pessimistic, and 2 percent are very pessimistic.

The Ernst & Whinney-*Nation's Business* poll is the first in a twice-a-year series measuring opinions of small com-

San Diego's Kim Raffee, president of a wholesale-retail firm, says action on the federal deficit will be a crucial factor for the economy.



PHOTO: RICK STERNARD/FOCUS WEST

panies' executives on the business outlook and economic issues. An Ernst & Whinney-*Nation's Business* index of small business confidence will measure and compare results of the surveys.

When the initial survey was conducted, the prime interest rate was 8.5 percent. Eighty-eight percent of the respondents think it will be higher than that in the coming year. Thirty-one percent predict a rate in the 9 percent range, and 34 percent say it will be in the 10 percent range. Twelve percent say the rate will be around 11, 6 percent say 12, and 3 percent say 13 or more.

Similarly, 88 percent of those responding to the survey believe inflation

A new survey shows CEOs see good times ahead, though they are cautious—and bearish about interest rates.

will be higher in 1987. But there is little fear that there will be a return to the raging rates of yesteryear.

The Consumer Price Index had an annualized increase rate of 2.2 percent at the time of the survey. Twenty-eight percent of the CEOs foresee a rate of about 3 percent, 26 percent predict 4 percent, and 22 percent say 5. Four percent put the rate at 6, and 8 percent say it will be above that level.

"I'm generally optimistic," says Foy Conway, 56, CEO of Conway-Milliken & Associates, a Chicago firm specializing in market research and consumer product development services. "To all outward appearances, inflation is under control."

Seventy-one percent of the executives expect their companies' net operating results to be improved in a year—as compared with 23 percent who believe theirs will be about the same and 6 percent who see profit drops ahead.

"Our company is doing very well, but it takes extreme effort," says Henry Lilleberg, of Chicago. Lilleberg, 64, is chairman of Flexan Corporation, manufacturers of molded rubber parts. "It's tough to be in the manufacturing business today."

The 71 percent who predict profit improvements include 48 percent who say their profits will be somewhat better and 23 percent who say they will be much improved. Among the latter, more than half attribute the projected improvements to marketing-related factors such as expanded sales, markets, product lines and distribution channels.

"Keys to improving our net operating performance," says Raffee, "are greater personal ties with our clients; more one-on-one efforts, primarily in the sales area; and expanding our client base through advertising."

Additional factors cited in explaining anticipated improvements include reduced overhead, better management, improved staffing and more efficient or increased production.

Surprisingly, perhaps, some executives say the repeal of the investment tax credit under Congress' tax reform package will have little effect on their capital spending. Says Bud Fisher, 54, president of Franklin Building Supply

Herbert S. Braun, a partner in Ernst & Whinney, is national director of its services for privately owned and emerging businesses.

MANAGING YOUR BUSINESS

Forecasts From Small Firms

Burlington, Vt., television station operator Stuart Martin says needs, not taxes, are the key to his decisions on capital expenditures.



PHOTO: TONY TALBOT

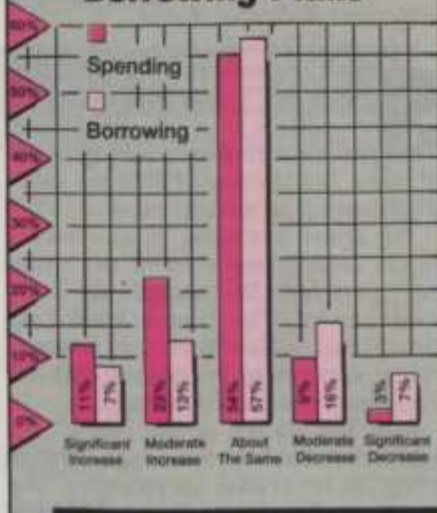
Company, Boise, Idaho: "In our business, you have to time your purchases to your needs, not the tax situation."

And Stuart T. Martin, president of Mount Mansfield Television, Inc.—operator of WCAX-TV in Burlington, Vt.—says: "We never pay attention to things like investment tax credits. They're extraneous to the purpose of the expenditure. If you need a piece of

equipment, a reduced price or a discount of 10 percent isn't what makes you decide to buy. Your need does."

However, a number of executives expect the repeal of the credit to have an effect. Says Edward C. Patten, 49, chief executive of Parke J. Patten, Inc., a North Haverhill, N.H., propane wholesale and distribution company: "We'll be curtailing our spending some."

Capital Spending And Borrowing Plans



Paul Griffin, 38, president of FSG Industries, Inc., a distributor of industrial fire, safety and glove products in Buffalo, says: "We are in the process of putting up a new building, and we're losing our tax-exempt bond money. We have the building started—the foundation is poured. We wish we hadn't gone ahead."

Overall, 54 percent of the respon-

In Quest Of The Ideal Employee

"Nobody wants a company staffed with mediocre people," says Kim Raffee, president of Design for Living, Inc., in San Diego. "You need good talent and a lot of innovative people to survive in the long term."

If the people who run today's small businesses have their way, tomorrow's enterprises like theirs will be managed and operated by people in their own image. Asked to rate a number of management considerations as to their importance in planning for the growth of their companies, respondents stress the importance of attracting and retaining competent people.

What does a small firm's CEO hope to find in looking for the ideal employee?

"Somebody just like me," says Edward Patten, of North Haverhill, N.H., propane wholesaler-distributor Parke J.

Patten, Inc. "Somebody who's going to work hard to earn money and get ahead."

Just like him? "Right now it's the middle of the afternoon on Friday, and everybody wants to get out of here at 4:00 and go home. So I have to rush around and make sure everything is done before they leave—for one thing, checking that our propane order is coming in from Houston; it has to be done today so that we're ready to go on Monday. I have to worry about everything—be aware of the bigger picture."

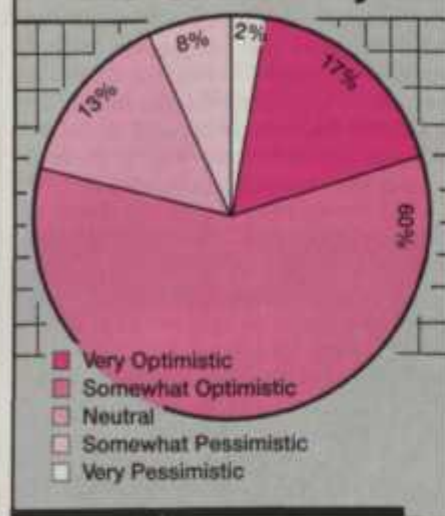
Adds E.C. Powell, Jr., president of Kuykendall & Powell Oil Company, Tuscaloosa, Ala.: "The ideal employee has the pure, old, deep basics of honesty and good morals. If you have somebody with those qualities, and who's friendly and enjoys life, he does a good job. So just stick to the basics."

According to Franklin Building Supply Company President Bud Fisher, of Boise, Idaho, "there are many things you think of in ideal employees—ambition, honesty, a desire to grow and improve, reliability. And they'd have to enjoy the business—like it enough to endure the boredom of things they don't like so they can do the things they do like."

And what about retaining the competent employees? It is hard to keep innovative and talented people, says Raffee, whose firm has 250 people on its payroll. "You have to do it, obviously, with dollars. We give our executives perks that the tax laws now say will not be deductible to this business. But that's not going to change our decision to do it. To keep the best people, you have to make their lives something special because of working for you."

Red tape in dealing with the government irks Cozad, Nebr., grain merchandiser Gerald Macken. Delays kill opportunities, he says.

CEOs' Views On The '87 Economy



dents expect to keep capital spending about the same. Thirty-four percent foresee an increase, and only 12 percent anticipate a decrease.

Fifty-seven percent plan to keep their borrowing at about present levels, while 21 percent expect an increase in borrowing. Twenty-two percent see a decrease.

How do executives feel about the tax reforms, overall? Eighty-two percent say they are concerned about the tax changes, including 16 percent who are extremely so.

"Short-term, many businesses are going to be in trouble because of changes that had not been anticipated," says Wiedemann, the executive benefit specialist. "Long-term, the tax act probably is going to be beneficial to our economy. It makes the playing field more level." Less optimistic is H. Edward Barnicle, Jr., 44, president of Dolphin Cartage, Inc., a Chicago-area contract trucker with 85 employees. He says: "I am not certain that what I'm seeing in the papers is going to be good for the economy."

Market research firm CEO Foy Conway says that "it's going to take a while for the tax reform's full impact on business to settle in. However, allowing only 80 percent of entertainment expenses was, to me, absolute silliness. Why 80 percent? Entertainment either is a legitimate business expense or it isn't."

The executives were asked to rate the importance of a number of management considerations in planning for

their organizations' near-term growth. Thirty-nine percent of those replying rank keeping competent employees as extremely important, and 28 percent give that ranking to attracting them.

"Obtaining and retaining competent employees is one of our top priorities and always has been," says David Lowry, 42, chairman of Data Design Associates, Inc., developers and marketers of accounting software in Sunnyvale, Calif. "Part of our corporate culture is the creation of an environment that is highly attractive to top people."

Other considerations ranked extremely important are minimizing taxes, given that ranking by 30 percent of the executives; increasing sales of existing products (29 percent); making greater production efficiencies (27 percent); lowering overhead (26 percent); and improving management of receivables (21 percent) and of cash (20 percent).

"We've been growing steadily for 10 years," says Boise's Bud Fisher. "In the next two years, we're going to be polishing—like adding computers—not growing. We are concentrating on becoming sophisticated in our business."

Says Larry Bryan, of Spokane, Wash.: "Increasing sales of existing products is extremely important to me in planning for near-term growth." Bryan, 35, is president of Northern Supply Company, a specialty supplier to subcontractors.

"Our business relies on construction, and construction is depressed in our area," he explains. "Basically, without any increase in the level of new con-

struction, we will have to increase our market area to maintain sales. Also important in our planning for near-term growth is overhead. We are always trying to reduce it."

Respondents were asked to indicate their level of concern for a number of other factors that could affect their organizations in the next year.

Says Lee Schwartz, 35, president of Simon Schwartz, Inc., owner of two Tampa supermarkets: "My primary business concerns are the same as others—the economy, the deficit, global affairs. You name it, I worry about it."

"I even worry about the weather. It really affects the supermarket industry. For example, the drought early in the summer killed many chickens, reducing the supply and thus raising the price. This put upward pressure on the cost of competing commodities, like beef, and I had to change my merchandising strategy in a hurry."

Eighty-two percent of the CEOs are concerned—32 percent say they are extremely so—about government red tape.

"Whenever we want to do something with the government, it takes months to make a decision that should take days," says Gerald N. Macken, 35, president of Bellamy Grain Corporation, a Cozad, Nebr., grain merchandiser. "There's too much duplication that makes it difficult for the small business to survive. Opportunities slip by before you can take advantage of them."

Adds Gazie K. Ragep, of Elizabeth-



PHOTO: GEORGE L. HOFFER

Forecasts From Small Firms

ton, Tenn.: "When you have to do something dealing with the government, there's never a clear-cut resolution in a reasonable amount of time. There are always more people to see and more forms to fill out—a mushrooming of the problem so that it can't be resolved quickly and efficiently. You just can't get the answers you need. Maybe the lines of authority are too diffused." Rague, 45, is president of MKS Company, a manufacturer of synthetic fibers.

Domestic competition is mentioned as a concern by 62 percent of the executives, labor costs by 58 percent and foreign competition by 50 percent.

Another significant problem highlighted by survey responses is liability insurance. Ninety-two percent of the respondents say they are concerned

about its availability—68 percent are extremely concerned—and 97 percent are concerned about its cost, including 85 percent who are extremely concerned.

"Our cost for liability insurance has gone up 450 percent in the last two years," says trucking executive Barnicle. "We've gone from being in a buyers' market in insurance to the point where you feel you're extremely lucky if you're able to latch on to a good insurance carrier."

Says rubber parts manufacturer Lilberg: "The cost of liability insurance has gone up tremendously. And I expect it to remain a major problem until interest rates start to rise again, because if the insurance companies can't make it through investments, they have to make it through underwriting."

Insurance costs, says E.C. Powell,

Jr., of Tuscaloosa, Ala., will "either put some companies out of business, or those businesses won't carry sufficient insurance." Powell, 42, president of Kuykendall & Powell Oil Company, wholesale gas and oil jobbers with 25 employees, adds: "When the insurance cost more than doubles like mine did—from \$20,000 two years ago to \$55,000 now—why, there's no way to increase profits that much to make up for it."

And Sunnyvale, Calif., software developer-marketer Lowry observes: "There's a sort of mentality that, if somebody has some kind of loss, somebody else ought to be sued to make up for that loss. People need to understand that, often, things are nobody's fault—that nobody is really responsible for compensating for the loss."

Of six proposed measures for balancing the federal budget, cutting foreign aid is supported most strongly by the executives (72 percent), followed by cutting social welfare programs (68 percent), cutting farm subsidies (64 percent) and cutting military spending (51 percent). Raising taxes on business profits is favored by 18 percent and raising personal income taxes by 17 percent.

Many executives express doubt that a balanced budget is really possible without fundamental changes in government attitudes.

Says Calvin Kaufman, of Cissna Park, Ill.: "I realize I can't spend more than I take in. Our government ought to do the same thing." Kaufman, 62, is president of Kaufman Grain Company, a grain merchandiser.

When CEOs were asked what message they would send to Washington, the messages included "make taxes more equitable," "stop unnecessary expenditures," "reduce bureaucracy," and "become more efficient."

Douglas Sumrall, 47, owner of Sumrall Distributing, Inc., a gasoline and oil products distributor in Palestine, Tex., says that "the people who make the decisions should get down in the trenches and see what's happening at the front lines."

Griffin of Buffalo's FSG Industries says: "Tell the senators to live under the rules we live under. Tell them to come out here and scratch for a living."

Adds New York direct marketing firm head De Pasquale: "It would be important to look at our governmental structure as a business and to look at cutting the cost of running the business." **16**

The Joy Of Working Hard

What kind of people are running small business America? The Ernst & Whinney-Nation's Business poll finds they are hardworking men and women, overwhelmingly satisfied with what they do for a living.

Ninety-two percent say they devote more than 40 hours each week to their jobs—including 41 percent who put in between 50 and 60 hours and 7 percent who work more than 80. Sixty-eight percent say they are achieving their personal financial goals. Ninety-seven percent say they like what they do.

Says Alan Brill, 44, president of Brill Media Company, an Evansville, Ind., owner of radio stations and newspapers: "We're a growing company that has a lot of opportunities. I enjoy seeing the development of our people and helping them be more effective. And I enjoy dealing with the changing environment that I am in."

Respondents to the survey range in age from under 35 to over 65, with the most populous 10-year bracket ages 45 through 54. Sixty-three percent graduated from college, including 22 percent who hold advanced degrees.

Fifty-two percent now earn more than \$100,000 a year, including 11 percent who earn between \$200,000 and \$300,000, and 5 percent who earn even more.

While executives in all age groups work relatively long hours, the percentage of those who put in 80 or more per week drops slightly among the older executives. Nine percent of those under 45 report they work 80 or more hours, compared with 6 percent in the 45 through 54 age group and 3 percent of those 55 and older.

And long hours seem to bother the younger executives a bit more—47 percent of those under 45 say they work too many hours, compared with 41 percent of the 45-54 group and 36 percent of those over 55.

No matter how many hours they put in, many executives do not seem to mind it.

"I work six days a week," says Paul Griffin, 41, of Buffalo, president of FSG Industries. "I care about my business. I do whatever it takes. It doesn't matter what it is—change a flat tire, make a decision to spend \$450,000 for a new building. Today I'm putting together a new catalog. Nobody is entitled to anything. You have to work for it."

And, apparently, most executives would not mind seeing their children work hard, too. Eight out of 10 respondents say they like the idea of their offspring joining them in their business.

New Directions For Growth

By Harry Bacas

Cities and states are learning not to copy others' programs but to build on their own regions' strengths.

"Riverwalk," New Orleans' newest attraction, is a three-level shopping and entertainment complex built on the waterfront around a busy central market area.



PHOTO: THE HOUSE COMPANY

Kay Jackson, Louisiana secretary of commerce, chuckles as she talks about her job: "Some people, including Louisianans, just see our state as a depressed area, at its lowest economic ebb in 40 years. But I go up to New York and tell those Wall Streeters that the time to buy is at the low ebb."

Kay Jackson's job is economic development in a state whose economy for years has been so firmly based on gas and oil production that the slump in world oil prices has hit it worse than any other state. Despite a climate friendly to business, Louisiana has suffered from declining income, double-digit unemployment and a shell-shocked financial community.

Notwithstanding the oil glut and agricultural problems, especially a depressed sugar industry, Louisiana, led by its flagship city, New Orleans, has

At Riverwalk's opening ceremonies, a paddlewheel riverboat steams up to join the festivities. The Delta Queen Steamboat Company moved its

headquarters to New Orleans from Cincinnati last year after the city offered a package of incentives.



PHOTO: THE HOUSE COMPANY



PHOTO: CINCINNATI BYRON

been exploring its other assets and is finding new directions for growth in fields like high technology, petrochemicals and tourism.

Other regions have their own special problems and are using different strategies to promote economic development. The city of Las Vegas, for example, wants to broaden its economy by getting beyond its reputation as a neon-lit gambling mecca. To encourage diver-

sification, it is advertising Nevada's splendid climate and natural resources.

New York City, on the other hand, is fighting against its image as the King Kong of business taxes and the home of automobile gridlock. It is courting new business by stressing its unparalleled communications, its new financial stability and the services of a structured group of development agencies.

The state of Rhode Island is in a dif-

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SPECIAL REPORT

New Directions For Growth

Peter Roy, president of the Whole Food Company, was asked by the Rouse Company to put up a produce stand in Riverwalk's marketplace.



PHOTO: KATY ANDERSON

ferent boat. In the last two decades it has seen some leaks sprung in its fleet of traditional industries—textiles, commercial fishing and jewelry manufacture. But its efforts to induce dynamic change were hobbled by a perception that the state had an ingrained antibusiness philosophy.

Two years ago, a new governor and legislature embarked on a bipartisan program to improve the state's atmosphere for business. They cut business taxes, removed development disincentives and installed such business-enhancement programs as a technology transfer system to bring university research into the marketplace.

Since then business has improved to the point that Rhode Island's unemployment rate is now one of the lowest in the nation. Gov. Edward DiPrete calls it an "economic renaissance" and has pledged "even greater enhancements of our business climate."

As these states and cities look for ways to stimulate economic growth, they find that what works for one area may be the wrong medicine for another. Development professionals are learning not to seek quick fixes by copying others' programs but to recognize and build on their own regions' particular strengths.

One of Louisiana's growth areas is tourism, already among the largest industries in the state.

When the New Orleans world's fair closed in 1984 after a six-month run, new uses had already been planned for the site. The city acted early because it

did not want to inherit an abandoned fair site and then watch the grass grow through the cracks.

It got an \$8.5 million urban development grant from the federal Housing and Urban Development Department, \$5 million of it for general site development and \$3.5 million for streetscapes and public entrances. It contracted with the Rouse Company, a large national development company, to construct and operate a three-level complex of shops and entertainment areas along a half-mile of river front from the ferry terminal to the convention center.

This 180,000-square-foot "specialty urban marketplace," called Riverwalk, would include the fair's two-level International Pavilion and the Spanish Plaza, an open area with fountains, donated to the city 15 years ago by the government of Spain.

Construction began three months after the fair closed.

Two months ago Riverwalk had its gala opening, with 80 percent of its potential merchants in place and 60 percent of its gross leasable area taken. The construction cost \$58 million. When the project is fully operational next year, it will be the center of 2,300 jobs.

"Our tenants are mainly local merchants who are expanding, not just leaving old locations for new," says Riverwalk representative Gay Williams. Also present, though, are national companies like Abercrombie & Fitch, Banana Republic, The Sharper Image and Brookstone.

Some tenants needed persuading.

"I wasn't at all interested when two



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SPECIAL REPORT

New Directions For Growth

leasing people from the Rouse Company came to see me," says Peter Roy, president of The Whole Food Company, which runs two upscale supermarkets in New Orleans. "I had my plans for a third supermarket and deli in another location. But they invited me to their kickoff party and the next day gave me a tour of the project site, and I began to see the possibilities.

"They wanted me to put up a fruit and vegetable stand for their Colonade Market area, which is the anchor of the project. A produce stand didn't excite me.

"But I could see the strength of the place, its beautiful location. So I thought, why not drop a deli and a bakery in there with the produce? The Rouse people were fascinated and said go ahead."

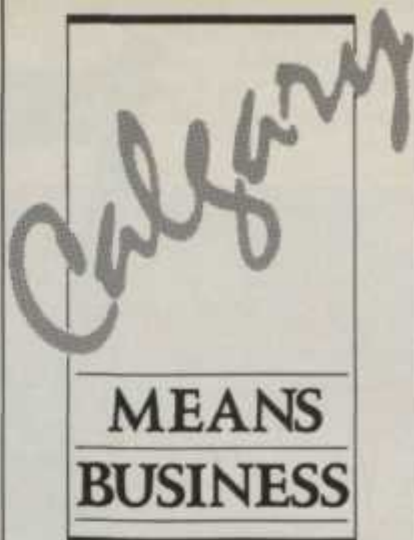
Roy created a German sourdough bakery, which functions in full view of customers and produces all the breads used in the deli. The construction employs lots of white tile and curved glass and a big skylight overhead. The produce stand outside offers a fruit salad bar and a green salad bar. Next door is a wine bar where customers can look at the river while they sip.

When Roy inquired about rent, the Rouse people asked him what he thought was fair. Part of Roy's deal, like that of many other tenants, was a loan from the city's Citywide Development Corporation. The city also held group meetings with tenants to expedite license approvals, and Rouse provided generous "finishing out" allowances.

Retail trade is not the city's only area of development. In New Orleans East, a section within the city, the 7,000-acre Almonaster-Michoud Industrial District—largest industrial park in the nation—is growing.

Created in 1980 and jointly owned by the city, private developers and the federal government, it is home to aerospace companies like Martin Marietta, electronics firms like Siemens Allis, food processors like Folger's Coffee (one fourth of the coffee consumed in the United States comes through New Orleans) and long-distance haulers like PIE Ryder. It has a bulk-handling facility for coal and other commodities and a container storage and repair plant.

A-MID, as it is called, is developing steadily with the help of a whole portfolio of financial and regulatory incentives in addition to its natural re-



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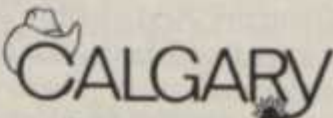
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It's time to cut Federal spending.

SPECIAL REPORT

New Directions For Growth

sources. Its essential attraction is location: It is served by mainline railroads, an interstate highway, nearby general aviation and international airports and its own container port on a deepwater canal that cuts 36 miles off the distance to the ocean.

Among its 110 tenant companies are some smaller firms, like a checkbook printer and an appliance repair shop. Another, Peterson Maritime Services, which has been servicing the port of New Orleans for 25 years, moved to A-MID four years ago.

"We do ship cleaning [interior cargo spaces] and oil spill pickup, and we clean up and remove hazardous materials at the water's edge," explains Harold Pecunia, the native New Orleanian who is president and owner.

Despite the collapse in the oil industry, the company's business has grown from annual sales of \$450,000 in 1971, when Pecunia joined the company, to \$8 million this year.

"We were in a locked-in position downtown," Pecunia says. "We were scattered in three or four leased warehouses and couldn't expand. Here we have 4½ acres, with 20,000 square feet for offices and 70,000 square feet for warehouse all in one building. We have better control of inventory, a single phone system, and all rolling stock and maintenance in one place. And with management in one location, we can talk to each other more easily."

His building, on private land, is constructed on pilings, as are most buildings in the area. At first a septic tank was used for sewage disposal. But A-MID arranged sewer system service.

Pecunia, who credits A-MID Executive Director Anthony DeVoney with getting him the sewer connection, declined some of the financial incentives A-MID offered because he did not want to be bound by all the hiring restrictions that went with them. He has 75 full-time employees and uses as many as 300 temporaries.

DeVoney says a 20-mill ad valorem tax on A-MID tenants brings in \$250,000 a year to develop the district. Because the district is a state enterprise zone, tenants get numerous tax benefits, like a five-year reprieve on state income, franchise and real estate taxes (with conditional five-year extension) and a full rebate of city and state sales taxes on construction supplies. A-MID offers help in getting financing and will call on a city agency to train a

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An employee at Tanury Industries in Lincoln, R.I., does electroplating. A state research grant is leading to high tech applications.

company's new employees in town or on the company's premises.

A coup for city development officials came last year when the Delta Queen Steamboat Company transferred its headquarters from Cincinnati to New Orleans. The company, which traces its roots to 1890 and now is publicly owned, operates two overnight paddle-wheel steamers on the Mississippi, Ohio, Tennessee and Cumberland Rivers between ports as distant as St. Paul, Pittsburgh and Chattanooga. The cruises, which last from three nights to 10 nights, offer historical tours amid such onboard amenities as air conditioning, saunas and gourmet dining.

With a \$2 million state development bond, \$150,000 from the governor's relief fund and city and port assistance, the company leased a ramshackle old commercial wharf building, sank new pilings and put up a \$2.4 million structure within the old facade.

The first floor holds a passenger terminal with refreshment facilities; corporate offices are on the second floor, overlooking the river.

"There were some pretty rough spots in getting all the licenses and clearances from the various jurisdictions," says Delta Queen Vice President Patrick T. Fahey, "but the city and state and port authority people cooperated pretty well, and it all worked out."

The two boats will carry 30,000 passengers this year, with sales of \$35 million, up 15 percent from last year.

The company employs 450 persons, 75 of them in the sales, marketing and administrative offices.

Louisiana is not just helping established companies. It is encouraging start-ups, too. "Our byword at the Department of Commerce," says Secretary Jackson, "is to develop a spirit of entrepreneurship, a spirit of risk taking. That's why we have a program called 'Quest for Technology' to transfer technology out of the universities and into commercial use. We know small business represents our future, and to help the new entrepreneur we have to provide financing, management assistance and entrepreneurial training."

Technology transfer is a strategy for several states. In Rhode Island, it is at the top of the list of development activities. The Rhode Island Partnership for Science and Technology was set up with initial funding of \$2 million "to mobilize and expand the state's intellectual resources and to apply those re-



PHOTO: KATHY BURGESS

sources to the economic development goals of our state."

The program makes grants of \$100,000 or more to businesses (which can be from out of state) to finance research at Rhode Island universities or other nonprofit institutions. The grant has to be matched two-for-one by private money, equipment or services. If the research eventually pays off in profits, the business repays the state double the amount of the grant, over a reasonable period.

One of the first three grants was \$350,000 to the American Surimi Corporation, of Providence, which is working with the University of Rhode Island to investigate the possibility of producing surimi—a seafood product made from hake, pollock or other abundant ocean fish, which are processed to look and taste like more costly crab, shrimp or lobster.

Surimi, long a staple food in Japan and sold here as "sea legs" or "Alaskan crab legs," is the fastest-growing seafood import in the United States. Usual-

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New Directions For Growth

SPECIAL REPORT

Paul Craven's company in Providence, R.I., sells a system to store huge amounts of data on optical disks and retrieve it on a computer.

ly, the materials are Japanese, the packaging American.

The new corporation is jointly owned by a packinghouse, a wholesale food distributor, a retired businessman and the state.

It is looking for a site now, with Point Judith, at the foot of Narragansett Bay, as the likeliest location. Production, which could begin early next year, would rejuvenate the local fishing industry and create several dozen jobs.

Another technology grant has gone to Tanury Industries, a metal plating firm in Lincoln, R.I., to work with Brown University in developing advanced plating techniques for critical semiconductor applications.

Tanury Industries, a 40-year-old company with 150 employees, is a leader in decorative gold and rhodium electroplating for Rhode Island's large jewelry industry. It also plates Cross pens and Cadillac gold keys.

A recently formed electronics division works on parts for switches and microwave housings used in communi-



PHOTO: RICK FRIEDMAN-BLACK STAR

cations and defense (in the MX missile, for example). Last year the division accounted for only one tenth of the company's \$9 million business. But its sales are expected to double in the next year.

"That's where the growth is coming from," says President Thomas A. Tanury, "and we soon realized that conventional plating techniques were not suf-

ficient to produce the precision required. We were going crazy with quality control rejects.

"These sophisticated applications specify plating tolerances as low as a few micro-inches, and to produce that reliably demands new technology."

Tanury searched among several universities and found that Brown was doing advanced research in thin film science, using new techniques to produce thin silicon and gallium arsenide layers for photovoltaic cells, for example. This method puts dry materials in a heated, argon-filled vacuum chamber and subjects them to an electrical field to create coatings through physical reaction—quite different from the chemical reaction that occurs in conventional wet-bath electroplating.

The new process, called "sputtering," produces very uniform plating of a thickness that can be precisely controlled. It can be used with ceramics, precious metals and alloys.

"This is not a grant," President Tanury says of the state's financial assistance. "It's a loan. They'll get their money back and more."

Some of Rhode Island's high technology growth is taking place in clusters. One locale is the Richmond Square Business and Technology Center in Providence. Although the center had some government help, it is a private operation.

It was started two years ago in a restored 1890s brick-and-timber mill, once the American Emery Wheel Works, along the Seekong River on the city's east side. It was developed by an investors group with a federal urban development grant and other city assistance.

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ALABAMA

Chong Lee, a food scientist at the University of Rhode Island, is working under a state research grant to develop local production of a fast-

growing seafood import called surimi, a crab substitute made from common ocean fish.

story mill and two smaller buildings is now occupied by more than 60 computer, consulting and research firms. Most are small, and many have availed themselves of the incubator services that a Richmond Square subsidiary, Incutech, offers start-up companies.

Those services include management counseling, venture capital and business loans, links to computers and databases, a conference room inside one of the former kilns (where emery wheels once were fired) and secretarial, message and copying service.

One tenant, Nestor, Inc., a software development company, was started in 1983 in a small building not far away. It was expanding rapidly and running out of space when Harold Schein, a real estate developer who is Richmond Square's general partner, approached it. "I had been aware of them," Schein says, "and I pursued them to come here. I described the advantages of being with other high tech companies and told them if they ever grew out of their space and needed more, I would find it



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SPECIAL REPORT

New Directions For Growth

for them, or I would let them out of their lease to go someplace else." Since then, Schein has seen the company expand from 2,700 square feet to 4,700, then to 7,700. It has 25 employees.

Nestor's specialty is character-recognition software. Its system lets an IBM AT computer "learn to read a person's handwriting and interpret whatever he writes as computer data," explains Nestor President Michael Buffa.

The system is designed for large operations in which clerks spend a lot of time filling out paper forms. A touch-sensitive pad is put underneath the paper form while the clerk is writing on it, and the system reads the writing directly into the computer as text.

Nestor had sales of \$400,000 its first year and \$1.1 million the second.

A newer company, with an even faster rise, is another Richmond Square tenant named Image Management. Paul Craven, then working for Wang Laboratories in Lowell, Mass., formed it in January,

1985, with two other Wang employees.

Their product is an optical disk records management system for customers that keep a lot of archival records. Using hardware from Wang, Digital Equipment Corporation and Sun Microsystems, the disk system is designed to replace microfilm, microfiche or paper documents. Customers include General Dynamics, General Electric and the U.S. Navy.

The digital disk's advantage over these other systems is that it allows quick search and retrieval of anything in the database, and it can be used by more than one person at a time.

Each disk holds 2 billion bytes, enough for 700,000 pages of text or 4,000 large, detailed drawings.

The company's customers include municipalities, whose engineering departments have to keep stacks of drawings showing the exact location of the criss-crossing wires, pipes and conduits under city streets.

Paul Craven grew up in a Washington suburb. The Navy taught him elec-

tronics and introduced him to Newport, R.I., and when he got out of the service he moved there and opened a business.

Later, when he left Wang to start Image Management, there was no question about where to go.

"Rhode Island is one of the best kept secrets in the country," Craven says. "We pay half to a third what we would pay in Boston for the same thing. And there is a synergy here; it's a high technology park. For example, we use a systems diagnostic company that is right across the street."

Craven confesses he had to scramble to get his company going, raising \$200,000 privately and \$350,000 from a small venture group. Later the company went public and raised another \$3.1 million. Sales the first year were \$500,000. The second year they are expected to be \$2.5 million. The company has 40 employees.

Rhode Island couldn't ask for better testimonials than these entrepreneurs offer to answer anyone who still thinks Rhode Island is "antibusiness." **MB**

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Born In The U.S.A.

Although uniquely American in method and style, franchising is making a hit internationally.

By Richard T. Ashman

Windshield repair might seem like a neighborhood-sized business to most, but Gerald E. Keinath has already discovered that it is nothing less than global.

"More and more, this is one world," says the president and owner of Novus, Inc., a Minneapolis-based franchisor of windshield repair shops with franchises in Europe, Japan and Australia. Franchisors "who do best," he says, "will think in international terms."

A mechanical engineer by training, Keinath had worked in Europe for 11 years for Columbus, Ohio-based Battelle Institute before he started Novus in 1972. He thought in international terms.

"I wanted to go international," he says. "I really believe that's the way most everybody in franchising will have to go in coming years."

He explains that, after years of tremendous franchising growth in the United States, various markets for franchises are likely to become crowded here long before they do so in other countries.

Many franchisors already are heading abroad with their distinctly American form of doing business. That is good news for U.S. officials who have watched the trade deficit worsen steadily. It is also good news for officials in other countries who are looking for a way to increase employment and provide new products and services to their citizenry.

The bad news is that many franchise companies planning to go abroad will be stopped in their tracks by what might seem to be relatively minor cultural differences or by foreign governments' adverse regulatory and legislative actions.

Because franchising is unique to the United States, other countries (and by extension their bureaucracies and courts) have trouble understanding it. This is a particular difficulty in developing countries, says Andrew Kostecka, the U.S. Commerce Department's fran-

Novus, Gerald E. Keinath's Minneapolis-based windshield repair company, has franchises in Europe, Japan and Australia. Keinath says

going international will be vital to franchisors who want to do well in the future.



PHOTO: NOVUS, INC.

chising expert: "Many African, Latin American and Asian countries condition acceptance of a contract on what tangible good it can do for the nation as a whole. This sets up a series of arbitrary guidelines that can delay or, at worst, doom a proposed contract between a U.S. firm and a prospective franchisee."

At the same time, world economic conditions are encouraging developed nations to take a positive view of franchising. In Western Europe, there are unemployment problems in some sectors that are familiar in the United States. Blue-collar and white-collar jobs are disappearing because of closings of inefficient plants in heavy industry, and corporate mergers are squeezing out some middle level management jobs.

Franchising has provided a means for many in America's displaced work force to use their skills and experience by becoming franchisees. It could happen in Europe also. A Commerce Department survey turned up 328 U.S. franchise companies operating 27,021 outlets in foreign countries in 1984.

The International Franchise Associa-

tion surveyed its more than 600 members last summer and found that, of 135 responding companies, 41 percent currently franchise internationally. That is up from 37 percent in a similar 1982-83 survey.

Even more significantly, 60 percent of those who do not franchise internationally are planning to do so in the near future. In the previous survey, the figure was 27 percent.

Companies franchising internationally are apparently doing well. The newest survey found that 93 percent of respondents had seen their international sales revenues increase over the past five years.

Franchisors are finding, however, that expanding business abroad requires more care and knowledge than expanding domestically.

Says Don Dwyer, chief executive officer of Rainbow International Carpet Dyeing & Cleaning Company, in Waco, Tex.: "We have 850 domestic locations and estimate the potential to be 1,500. We think we can do 5,000 abroad. But it takes a lot of learning to do business

Richard T. Ashman is first vice chairman of the International Franchise Association and vice president for public affairs of the Holiday Corporation in Memphis.

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abroad. You need to understand the psychology of doing business in other countries. For example, we ran into a snag in Germany, because German law requires a master dyer in every franchise. That is economically impossible."

The Holiday Corporation, which operates 207 Holiday Inns in 57 countries, has a headquarters staff in Memphis to monitor franchisees' progress and provide help if needed. Distance and language problems have required the company to establish special monitoring operations abroad to ensure conformity with its quality standards.

Rodger Ford, president of Alphagraphics Printshops of the Future, a quick printing franchisor based in Tucson, Ariz., says quality control is one of the greatest problems in going abroad. "For that reason," he says, "we go through a long and extensive selection

process" for franchisees. Alphagraphics is choosing to expand by seeking master franchisees in other countries, a method favored by many U.S. franchisors going abroad.

Master franchisees usually take responsibility for an entire country and sell subfranchises.

Alphagraphics has signed master licensing agreements for Canada, Hong Kong and the South Sea islands. It expects to have 30 to 40 international master licensees by the year 1990. Rainbow Carpet Dyeing & Cleaning's Dwyer, too, says, "Master franchising is the way to go."

For a company like Holiday Corporation, variations and peculiarities in property ownership laws make it advantageous to seek out local sources of investment in hotels' real estate.

In addition to local law and financing

problems, a host of details—from product specifications in metric measure to child labor laws—require U.S. franchisors to exercise more patience abroad than they would at home.

Kentucky Fried Chicken is one of the largest international fast-food franchisors. It has 1,800 restaurants in 56 countries. Gregg Reynolds, a spokesman for KFC, says that to be successful in international franchising a company must have a commitment to quality control, training and monitoring.

Reynolds says a company that focuses on the most recent quarterly profit statement will not make it in the international marketplace. Patience will pay, he says. Kentucky Fried Chicken did not do well in Japan at first, but now two thirds of the company's international operations are centered there and in other Pacific Rim countries.

International franchising is open to smaller companies as well. Gymboree is a franchisor of development play programs for preschool children and their parents. Now in its 10th year, the Burlingame, Calif., company has 230 U.S. centers. In April, 1985, it opened its first unit in Canada; its first Australian franchise opened this summer; its first unit in France is due to open next year.

Karen Anderson, Gymboree's vice president of public affairs, says the company "could have sold the entire world" when the success of the American operation became widely known. But it did not want to. Concepts of parenting vary culturally, and Gymboree wants to move into the international market gingerly. The company has been approached by Japanese interested in franchise possibilities. But, says Anderson, its centers require a good deal of space for play and developmental activities—room that may not be available in Japan.

A global economy is emerging, and franchisors are going to be a significant part of that economy. Growth will be far more deliberate than has been true in the United States until franchisors have built networks and associations to influence foreign governments and business leaders.

For U.S. business, such a development could be an opportunity to recapture the almost mystical regard in which American products and services were once held in all parts of the world. For people in other countries, it could mean an increase in jobs and economic revitalization. **■**

Getting Franchises Into Japan

U.S. franchisors are being welcomed to the shores of Japan with the help of Idea Link Japan, Inc., of Los Angeles.

Idea Link Japan, Inc., is the U.S.-based arm of Idea Bank, Inc., of Tokyo, an investment network that scouts new American products and services for potential partners in Japan. Founded in 1985 by a group of leading Japanese companies, Idea Bank is headed by Nakamichi Sasano, president of Chescom, Inc., a Japanese telecommunications company.

The network is particularly interested in new franchise concepts for the Japanese market.

Idea Bank has 6,000 Japanese members, who own or invest in all types of businesses. Members pay an annual fee ranging from \$250 to \$60,000. Those members in the \$60,000 bracket have first rights to bid on American business presentations.

"We're the eyes and ears for Idea Bank in the United States," says Idea Link Japan's franchise consultant, Kevin Harrington. "We hear about hot new franchises here and send Idea Bank a promotion package to present to their members in Japan."

For instance, if a successful U.S. franchisor wanted to sell franchises in Japan, it would provide Idea Link Japan with information on itself including its

business plan, promotional brochures and videos.

Idea Link Japan then forwards the package to its Japanese parent, Idea Bank, which regularly presents the American proposals to members at franchise forums.

A Japanese entrepreneur interested in an American franchise contacts the American entrepreneur through Idea Link Japan. Though Idea Bank and Idea Link Japan abstain from entering negotiations between the two entrepreneurs, they do offer consulting assistance along the way to make sure each party understands all elements of the transaction.

Not every franchise package forwarded to Idea Bank is promoted to members, says Harrington. "I sent a package on the franchise, Hair Performers, to Idea Bank, but it was turned down," he says. "Japan has many hair salons, and Idea Bank prefers to market unique concepts to its members."

But Hair Performers was no worse for wear.

A franchisor only pays Idea Link Japan if it is successful in helping strike a deal, says Harrington. "We charge a commission depending on the amount of money offered by the Japanese entrepreneur."



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In Love And In Business

By Sharon Nelton

Veterinarians Raymond Craft and Deborah Dodson, who are married partners as well as business partners, found a creative answer to the sticky question, "Who's in charge here?" They founded two businesses.

The Silver Spring, Md., couple own Petvax, a mobile veterinary service carried to neighborhoods in vans, and Petcorner, which wholesales veterinary pharmaceuticals. Craft is president of Petvax and Dodson is vice president; they switch roles for Petcorner.

Although they say neither is each other's boss, they have learned they must divide responsibilities according to their strengths and weaknesses. Until they did so, says Craft, working together "was chaotic."

Like Dodson and Craft, other husbands and wives or live-togethers find that when they join each other in business, they must navigate a minefield of volatile issues: Who's the boss? Who gets what title and makes what decisions? Who does what? Who gets paid what?

In other words, couples in business together or couples who are considering becoming business partners have to figure out how to share the workload, power and rewards of their enterprises. A look at successful entrepreneurial couples around the country shows they have found a wide variety of ways to divvy up the labor and the spoils. Some examples:

- Massimo and Lella Vignelli are co-owners of Vignelli Associates, a prestigious New York design firm with credits ranging from Bloomingdale's shopping bags to church interiors. Massimo is president and Lella is executive vice president. They get equal salaries. An accountant once suggested that Lella's salary be lower than her husband's; that's one reason why they no longer use that accountant.

While they are both involved in de-

When you are in business with your spouse, you can hurt each other if you don't find a way to share power, warn veterinarians Raymond Craft and

How entrepreneurial couples are changing the rules of business and marriage.

Deborah Dodson, a Silver Spring, Md., couple who set up two businesses. He is president of one, and she heads the other. Neither is boss, they say.



PHOTO: T. MICHAEL KEZIA

sign, Lella handles the finances. The Vignellis have 35 employees, and Lella is generally perceived as the "office boss" while Massimo is seen as the "design boss."

- In 1985, Lorraine Mecca and her husband, Geza Csige, resigned from Micro D, the Santa Ana, Calif., computer distributorship they had started in the late 1970s. Micro D is a public company, and documents indicate that Mecca, vice chairman and CEO, received \$121,215 in direct compensation for the 1984 fiscal year. Her husband, who was chairman, does not show up on a list of executives with direct compensation of \$60,000 or more.

Furthermore, Mecca owned 51 percent of the common stock while Csige owned none. Mecca was the public figure for the company, but some observers characterize Csige as the power behind the throne.

- Robert Guccione and his longtime companion Kathy Keeton run Penthouse International, Ltd., the corporation that publishes *Penthouse*, *Omni* and other magazines. Guccione, the chairman, is the creative force behind

the company, but Keeton, vice chairman, is its hands-on manager. While Guccione works at home on Manhattan's Upper East Side in what company news releases describe, quite correctly, as their "palatial" townhouse, Keeton spends her days at corporate headquarters on Broadway.

Despite her power, Keeton does not have ownership in Penthouse International. The company is in Guccione's name and Keeton, who receives a salary, is, he says, "well paid." She is part owner of the renowned art collection housed in their home. It includes works by Botticelli, Gauguin, van Gogh, Renoir, Matisse, Picasso and Modigliani, and Guccione estimates its value at \$20 million.

If Guccione were to die, the company would continue to be administered by Keeton, and ownership would be shared equally by her and his five children. Guccione describes Keeton as "heavily protected" both financially and in terms of her position in the company.

Family business consultants and couples themselves say the way a couple shares responsibilities and rewards af-

Adapted from In Love and In Business: How Entrepreneurial Couples Are Changing the Rules of Business and Marriage, by Sharon Nelton, a senior editor of Nation's Business. © 1986 by Sharon Nelton. Reprinted by courtesy of the publisher, John Wiley & Sons, Inc.

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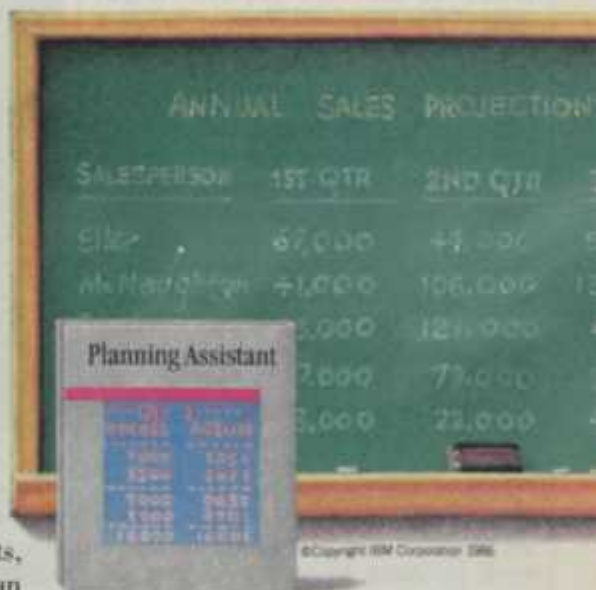
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MANAGING YOUR BUSINESS

In Love And In Business

A couple in business must learn to manage conflict if their enterprise is to succeed, say management specialists Stephen Swartz (left) and Thomas Hubler. Here they consult

with Dick and Beryl Schoonover of Schoonover Body Works, Inc., an automobile body repair center in Shoreview, Minn.

fects whether or not a company and the personal relationship run smoothly. Raymond Craft says that when he and Deborah Dodson started their veterinary practice in 1982, they were engaged to be married and "too much in love to conceive of any 'difficulties' between us that the business might cause." But they found that operating a business put a lot of stress on their marriage.

"The natural reaction is to try to control situations for favorable outcome," says Craft. "In controlling, all too often you step on the other person. The end result is damage to your personal relationship."

But conflict is a fact of life. "It's a question of how do we manage conflict, not how do we avoid it," says Stephen B. Swartz of Hubler/Swartz and Associates, a Minneapolis management consulting firm specializing in family businesses.

Swartz and his partner, Thomas M. Hubler, advise a couple to agree to a set of plans that will provide a framework in which to conduct their business. Such plans establish rules and clarify issues, enabling a couple to proceed with other decisions without power struggles and unnecessary conflict.

According to Swartz, this framework should cover ownership and organizational structure of the company, business objectives, and such operational items as who will make what decisions, compensation and even the kind and frequency of meetings. (Swartz contends that meetings help a couple make decisions in a more businesslike fashion and keep the business from "bleeding" into their personal life.)

Couples in business emphasize the importance of carving up turf so that each partner has his or her own area of authority. Usually, they divide responsibilities according to what each does best.

Often couples find they need to monitor the division of labor periodically to find out if it is still satisfying to both parties. When Linda M. Schatz, a former ABC News writer and editor, joined Schatz & Company, an Alexandria, Va., management consulting firm started by her husband, Kenneth, she was doing a lot of administrative work. "Sometimes I resented Ken for his high-status, high-visibility role, although my capabilities were in fact not equal to his," she says.

The Schatzes cooperated to give Linda opportunities to strengthen her man-



PHOTO: STEVE WORT-PICTURE GROUP

agement skills. Recently, she succeeded Ken to the presidency of the company, a move that offers the couple a way to share power more equitably and give Linda even more management experience.

Does a business need a boss—someone with the final say-so? Some couples think so; others don't. More important than having one boss, says David Bork, a Frederick, Md., family business consultant, is having "one prevailing viewpoint so that the people who control the business are not divided."

If one partner is the boss and does not handle the role skillfully, the couple may find themselves in trouble. For example, one husband said it hurt his wife's feelings when he "reprimanded" her.

The term "reprimand," observes David Bork, is one you use with your children, not a term sophisticated managers think of when they are dealing with the people they work with.

Still, it is possible for one partner to supervise the other in a way that preserves self-esteem and protects the relationship. It is like supervising any other worker. The focus must be on the work and not the individual. Instead of saying, "Hey, dummy, you did it this way," Bork suggests, the supervising partner can say, "Let's look at how this got done and how it could be done better so that we achieve this result."

How should ownership of a company be shared? In community property states, it doesn't much matter in whose name the company is owned, according to Frederic M. (Ric) Zigmond, national

director for accounting and business advisory services for Laventhol & Horwath, one of the Big Eight accounting firms. In such states, assets acquired during a marriage belong equally to husband and wife, whether they are in business together or not.

In most other states, a couple can agree on whatever division they choose. Some advisers counsel against a 50-50 split, citing the possibility of an impasse in decision making. But Zigmond disagrees. "I very rarely have seen people say, 'I own 51 percent; therefore, we're going to do it my way.'"

Accountants frequently advise couples that one partner be paid a substantial salary while the other (usually the woman) be paid little or nothing. Doing so can save a couple money in Social Security taxes and sometimes unemployment, disability and health plans.

However, Zigmond emphasizes the importance of self-esteem in such considerations. While it may cost extra to compensate both spouses equally or according to their contribution to the company, it may be the smart thing to do. If somebody doesn't feel compensated properly, he warns, it creates other problems in the company.

Hubler and Swartz advise couples to treat ownership and compensation as separate issues. Compensation should relate "to the function that people perform in the company," says Hubler.

For example, although Diane and Leonard Johnson are 50-50 owners of Central Pipe & Supply, a \$65 million-a-

year Houston corporation that supplies pipe to the oil industry, Leonard, who is president, earns a larger salary than Diane, who is executive vice president.

Resolving the issues of power and rewards means that partners must learn to settle differences without hurting each other. Some couples admit that it has taken them years to gain this skill. But designer Lella Vignelli says she and Massimo have always had the ability to focus their disagreements on the issue and not on each other's personalities. When they are giving criticism or defending a design, they require a well-founded explanation from each other. This keeps them from offering negative criticism out of a feeling of envy that the other partner came up with the idea.

As Linda Schatz says, "We resolve differences by looking at the conse-

quences to the *organization*, not to our individual egos."

The way couples manage differences feeds directly into how they share decision making. The attitude with which Rachel Borish and Jeffrey Slater make joint decisions is one of the keys to their success. "I'm a born procrastinator," says Borish, founder of Rachel's Brownies in Malvern, Pa. "My tendency is to never make a decision unless I've got a gun to my head."

Slater, her husband and partner, likes to move quickly. But, he says, "Sometimes delaying things helps to crystallize what the real essence of a problem is." He says he and Rachel are willing to learn from each other and from other people. Often a third party, such as a valued employee, can restate

an issue in a way that enables the partners to see each other's point of view.

Some couples divide decision-making responsibilities the way they do labor: the person with authority in a certain area makes the decisions in that area. Some simply say the one most affected by the decision gets to make it.

Hubler and Swartz encourage couples to decide consciously how they will make decisions. Then, says Hubler, "they'll be able to create a business solution that neither one of them could do by themselves, and so their differences are an asset rather than a liability."

David Bork agrees, saying, "In a healthy business, conflict is normal and it is productive." The couple who cannot handle conflict, resolve it and move on, he warns, "are not going to be as successful in business." ■

"We Need A Wife"

Running the Cortina Inn in Killington, Vt., keeps Robert and Breda Harnish so busy that chores at

home often get short shrift. But the Harnishes try to share—Bob hauls wood and does the dishes, while Breda handles the shopping and cooking.

Couples in business have to determine a division of labor at home as well as at the office.

Patricia and Mel Ziegler, founders of the San Francisco-based Banana Republic Travel & Safari Company clothing chain, say they share domestic responsibilities the same way they share business responsibilities. They each do what they hate to do least.

"He doesn't mind the laundry, but he hates the dishes," says Patricia.

Husbands like Randy Fields of Mrs. Fields Cookies in Park City, Utah, recognize that if their wives are going to contribute equally to the business, they need some relief at home. Nevertheless, Randy declares that he's old-fashioned and prefers a traditional split when it comes to assigning domestic chores. He oversees the cars, travel arrangements and "the physical universe outside the house." The house and child care, to him, belong in wife Debbi's domain. He will not wash dishes, vacuum or change diapers.

But neither does he insist that Debbi do all those things herself—she can hire someone.

Says Randy: "I am willing to compromise in terms of paying someone to come wash the dishes, and I am *not* willing to compromise in terms of *doing* the dishes. I will break them first."



PHOTO: TONY TALBOT

Robert and Joan Zimmerman of Charlotte, N.C., have been married for 30 years and for the last 27 have been running Southern Shows, Inc., a company that sponsors consumer and trade shows and grosses between \$6 million and \$7 million a year. As long as 25 years ago, they had a sign in their kitchen that said "Equal Opportunity Kitchen." If Robert got home first, he cooked the evening meal; if Joan arrived first, she did. Robert pushed the vacuum cleaner right along with Joan. "He has taken as much of the home burden as I have, and I have taken as

much of the business burden as he has," says Joan.

Some couples express resignation about household chores. Breda Harnish of the Cortina Inn in Killington, Vt., says: "Our house is kept about 90 percent less than our mothers kept their houses. Bob hauls wood, does dishes. I shop and cook. We each take care of our own clothes. The dust balls form in the corners."

Robert Harnish adds: "As Breda says, 'We need a wife,' and we would hire one in a minute if we could find one."

Speed Demons

By Karen Berney

Although the computer industry is mired in an extended slump, the technologies that drive it show no signs of slackening. Early next year, software giant Microsoft Corporation is expected to release a new operating system for personal computers that should offer performance at the desktop rivaling that of today's more expensive and powerful minicomputers.

Microsoft is the developer of the operating system known as MS-DOS, which controls the inner workings of computers and defines the standards for software houses to write programs.

The new version of DOS—Advanced DOS 1.0—will harness many features of the microprocessor chip that powers current top-of-the-line personal computers, IBM's AT and other manufacturers' AT-compatibles. Microprocessors are the tiny electronic brains that set limits on how much and how quickly information can be piped through a computer's circuitry. When IBM introduced the AT two years ago, it featured an advanced microprocessor—the 80286—from Intel Corporation.

The new operating system will enable software companies to write much more sophisticated and easy-to-use programs, say industry analysts. In addition, Advanced DOS will run thousands of software programs that have been written for the old DOS.

What will the new operating system let a business user do that he cannot do now? The most immediate difference will be speed, says George Alexy, marketing manager at Intel's Santa Clara, Calif., headquarters. Anybody who installs the new operating system on an 80286-based machine will see their old software run nearly five times faster. A spreadsheet that takes a minute to complete certain recalculations will perform the same operation in seconds.

For the hundreds of thousands of people with access to 80286 machines, these benefits cannot come soon enough. They have been waiting two years for an operating system that would take advantage of the chip's speed and power.

Explains Andy Seybold, president of the Seybold Group, a Torrance, Calif., market research firm, and editor of a widely read newsletter on industry

The Intel 80386 chip is expected to loom as large on the computer scene as the blowup of it—many times actual size—does here.



PHOTO: INTEL CORPORATION

trends: "Computer software has always lagged behind innovations in hardware, namely microprocessors."

Packing 25 times more memory and two to three times the speed of its immediate predecessor, the Intel 80286 was hailed at its introduction as a major breakthrough that would lead to a new class of exciting software for personal computers. But there was a hitch: To get started on new products, software writers needed an operating system fine-tuned to the 80286. Microsoft, which was supposed to deliver it, has encountered numerous delays, says Seybold.

While Microsoft was catching up, Intel was creating its next-generation microprocessor, the 80386. The chip will lie at the heart of new personal computers, and manufacturers are already announcing products. Compaq Computer Corporation introduced the industry's

A new operating system and new chips will soon put awesome—but simple-to-use—power in desktop computers.

first 80386-based microcomputer in mid-September. So, as the new operating system and computer hardware become available, software companies face the twin task of customizing software for both the 80286 and 80386 chips.

Because of the huge number of 80286-based ATs and AT clones already installed in offices and factories, analysts believe new software will first be targeted at the millions of users with access to these computers. "Within 30 days of the delivery of Microsoft's operating system, there will be a flood of new software announcements for ATs and AT compatibles," predicts Seybold.

Software vendors are expected to pack their existing products with new capabilities. Lotus Development Corporation, for one, plans to equip its best-selling spreadsheet program, 1-2-3, with new types of graphs and more statistical formulas for manipulating financial information, says Edward Belove, vice president of research and development for the Cambridge, Mass., company. "We cannot do this now because it bumps up against the memory limits of today's personal computers," he says.

Users will also see "truly integrated software," Belove says. Such software combines word processing, database management and spreadsheet applications in one package and permits switching in and out of these applications almost instantly.

Though software will become more complex, it is likely to be much easier and faster for the lay person to learn. Because of constraints on memory size, there is now a trade-off between ease of use and complexity, says Belove: The more complex the software, the less the flexibility to make it widely accessible.

With more memory, "programmers will be able to design natural language bridges to the user," Belove says. Natural language lets the user interact with a computer in everyday English.

And as if all this were not enough, Intel Corporation has its next chip, the 80486, on the drawing board. Says Intel's Alexy: "We are now in the process of quantifying market demand for the 80486," which will cram the strength of a mainframe computer on a fingernail-sized sliver of silicon. ■

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Managing Your Company's Cash

By Ron D. Richardson



ILLUSTRATION: JACK LEFFOWITZ

It is an economic fact of life: Even growing, profitable companies can encounter severe—perhaps fatal—cash flow crises. Financial statements can be perfectly accurate and still be perfectly useless if the difference between accrual accounting and cash flow accounting is not understood.

A business could sell on credit for a whole fiscal year, collect nothing and report a nice profit to the stockholders. However, with no cash on hand to meet the payroll or pay for utilities, the business would be dead long before those paper profits could be realized.

Accrual accounting—required for many firms under tax reform (see page 20)—allows you to gauge your business' performance by correctly matching revenues and expenses. But never confuse profits with cash flow.

Consider the president of a medium-sized, Midwestern manufacturing company who consistently concentrated on his company's monthly profit-and-loss statement. The statement was properly presented, showing routine profits of \$5,000 per month on average sales of \$100,000. Only after an irate creditor reached him by telephone did he discover that his comptroller had been unable to pay a lot of bills.

The president's concentration on the much-touted bottom line had caused

No matter how a business looks on paper, a dollar tied up in receivables or inventory amounts to a big goose egg. The goal of cash management is to find an equilibrium between cash collections and cash expenditures.

him to overlook a fundamental of business—that collected dollars, not sales dollars, are what a company takes to the bank.

At the most basic level, any business is involved in converting customer purchase orders into cash in its bank account. The trick is to shorten as much as possible the time between commitment of cash by your business—e.g., purchase of goods and services to fulfill orders—and collection of cash. Glitches can occur at any point in the process; but the firm that bills promptly, collects aggressively and makes maximum use of other people's money comes out ahead.

In terms of cash management, a dollar tied up in receivables or inventory is an unavailable cash asset, even if the business is being conducted profitably on paper. Furthermore, sales and shipments produce no cash, just receivables. The goal of cash management is to find an equilibrium between cash collections and cash expenditures.

The first step in the process is a sales forecast. Even an imperfect one based on historical information with adjustments for the current marketplace is better than nothing—and don't buy the argument that your sales can't be accurately forecast and that there is no point in trying. Accuracy is less important than establishing a baseline for

reference, so that deviations can be checked for possible fundamental problems. Since sales produce receivables rather than cash, the next step is to create a cash receipts forecast—an intelligent estimate of what proportion of receivables will be collected within 30 days of billing, within 60 days, etc. Obviously, this will require detailed analysis of customers' paying habits.

In addition to estimating cash inflow, you will need to estimate the outflow of the cash that keeps your business functioning—for payrolls, materials, debt service, utilities, etc. This estimate should note when such payments are due as well as the amounts.

You will now be able to analyze whether enough cash is coming in—and arriving in time—to meet your obligations. In other words, will cash inflow match scheduled cash outflow?

Your analysis is likely to reveal gaps between inflow and outflow. The final step in cash management is developing ways to fill in the gaps.

The key is to use that powerful financial tool I like to call OPM—other people's money. Basically, you can acquire OPM in four ways:

1. Borrow, short- or long-term.
2. Increase equity (retaining earnings, obtaining new capital investment).
3. Liquidate receivables and inventory more efficiently.
4. Obtain longer, more favorable trade credit terms.

Clearly, retained earnings cannot be paid out in dividends. And borrowing or obtaining new capital also come only at a price and are limited by your bank's

Ron D. Richardson is president of his own consulting firm, Corporate Financial Success, in Stamford, Conn. He has 26 years' experience—most of it at the managerial level—in both manufacturing and service firms.

Here are ways to make better use of a business essential—and to keep track of what really is happening to it.



or investors' perceptions of performance and risk. As the saying goes, banks will only give you money when you show them you don't need it.

In addition, keep in mind that long-term cash (equity or debt) should be used for long-term (i.e., fixed) assets; cash devoted to current assets (inventory, etc.) should come from short-term sources. Consistently using long-term-source funding of short-term uses can conceal short-term operational problems.

What about steps 3 and 4? Receivables and inventory devour cash, and too much investment in either creates the potential for a cash deficit later on. How much is too much? Generally, to avoid a cash pinch, receivables must be turned into usable cash at least as fast as sales are growing. One reference point is the average collection period, computed as the dollars of accounts receivable divided by dollars of annual sales, with the result multiplied by 365. The lower the number you get the better, of course, since it represents the average number of days before you are paid for what you sell. The number can be used as a yardstick for comparison with your company's sales history and with industrywide data. If your firm shows up poorly, corrective measures may be called for.

In cash management, a higher receivables turnover rate is always a positive input to the cash equation. For example, if daily sales are \$10,000, and you make a two-day improvement in your collection period, you have \$20,000 in available cash two days sooner than

Never confuse profits with cash flow. A business could sell on credit for a year, collect nothing and report a nice profit to the stockholders, but it would all be on paper. And without cash, the business would be dead.

you otherwise would have. The arithmetic is simple.

The ways to shorten collection periods are equally simple, in theory if not always in practice:

- Determine how old your accounts receivable are at least once a month. This information is indispensable in identifying a collections slippage. The sooner you identify one, the better your chances of avoiding a serious problem.

- Work your receivables hard. You need someone who will phone, visit, cajole and threaten—and not be moved by tales of woe. Don't wait on the mail—start working on the due dates. Persistence is important. Try to keep your average collection period to no more than 60 days. Shoot for 50. If you miss, you still have 10 days' leeway.

- Create discount terms that make it profitable for customers to pay promptly. However, be aware of the cost of discounts: You pay for the privilege of getting your customers' money sooner. Discounts penalize earnings; even the costs of small ones snowball when annualized.

- Don't send out bills in batches or at week's end. Bill as soon as a shipment leaves the dock.

- Monitor payment trends. Yesterday's reliable payer may, for many reasons, become tomorrow's bad debtor.

- Be prepared to refuse new orders

from a customer until the customer's account is made current.

Don't be seduced by promises of increased business in return for an unreasonable stretching of credit terms. However, credit can be a sales tool, and some elasticity can pay off—if you can collect the higher receivables and can absorb the higher costs of longer terms.

Inventory is another source of improved cash flow. Because shortages can have painful consequences, the tendency is to play it safe and adopt a more-is-better policy, but excess inventory creates cash-shortage problems just as excess receivables do. Furthermore, excess inventory just sits there waiting to be used, whereas receivables tend to liquidate themselves sooner or later. Accumulated FISH (first in, still here) stock occupies as much space as fast-moving stock, grows increasingly obsolescent and is not much of an investment.

To attack the problem, you need a perpetual inventory system that records receipt date (from which to calculate the age of stock), quantity on hand and projected use rate (based on past history). You also need an estimate of your average required inventory level, calculated as inventory dollar value divided by annual sales dollars, multiplied by 365; this gives the number of days of inventory required to support your annual volume.

If five-times-a-year inventory turnover is the customary minimum in your business, as it is in many, use 75 days as a maximum and determine the poten-

MANAGING YOUR BUSINESS

Managing Your Company's Cash

tial for cash generation. Finally, set an objective for eliminating inventory that is more than 75 days old (or whatever your guideline is). Bite the bullet; 50 cents on the dollar is better than 0 cents, and clearly the stuff may not be used "eventually" if it has already been sitting around for months. Once begun, keep it moving; get excess inventory through to the shipping dock as soon as possible.

There are a number of ways to obtain cash by intelligent use of OPM. Some of these methods are the reverse of the methods touted for rapid collection; it depends on whose ox is being gored, and you will have problems dealing with other savvy business managers. However, even modest efforts at making efficient use of OPM will be rewarded with improved cash availability.

- Don't pay any bill early—not by a day, not by an hour. Most firms consider payment timely if the check is dated the day the bill is due.

Take advantage of a cash discount for early payment only if the saving

substantially exceeds your general cost of money. Short-term cash considerations may dictate forgoing even a significant discount.

- Assume that payment terms are negotiable—play competing suppliers against each other, remembering that suppliers' day-to-day credit policies may be quite different from their published terms.

- Make maximum use of money market accounts. Not only are interest rates commonly higher than on NOW accounts, but many money market accounts offer checking privileges, and your check may enjoy a longer float—it may take longer for cash to be withdrawn to cover it—than if it had been written on a standard account.

- Restructure accrued liabilities to lengthen the time between payments—pay insurance quarterly instead of monthly, make payroll semimonthly instead of weekly, etc.

- Study your suppliers' float periods (their in-house delays plus postal and bank floats) to determine whether they

dawdle in getting your checks through the system and how long the lag is likely to be. Capitalize on any inefficiencies in their cash management practices.

- Study postal float patterns to the various addresses to which you mail checks and take advantage of those patterns in sending out future checks. The U.S. Postal Service moves mail more efficiently to some areas than to others. Check postmark dates on incoming mail. You may be able to cover checks later for some destinations than for others, even if mailing dates are identical.

- Bank float can be maximized through use of geographically dispersed accounts. For example, write checks to a New Jersey supplier on a California bank account, and vice versa.

No one in business, regardless of management function, can afford to be an accounting illiterate—you must understand the system being used and be able to test the reasonableness of what is presented and whether it makes sense in light of the current business situation.

Learn to scan the financial reports from the perspective of the most basic business equation—what you take in less what you pay out equals what you have left—and avoid being intimidated by the great amount of detail that financial people always produce. Don't get bogged down in the detail; concentrate on fundamentals.

Whatever, don't let yourself get lost in financial fog.

A Southwest retailer, from a zero start, had reached sales of almost \$9 million in its fifth year. No attention was being paid to profit-and-loss statements—rapid growth had produced a situation in which the current month's revenues were always adequate to pay last month's bills.

Then, belatedly, it became apparent that the business was being run consistently at a loss. Growth slowed, and it was no longer possible to spend \$2 to make \$1.50.

The "successful" business was a failure. If its true situation had been realized earlier—if its cash had been better managed—it would have been spared a lot of trouble.

Don't let what happened to that business happen to yours. **■**

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In order to help those people applying for these guaranteed and direct loans fill out their loan applications the "right way" our business research along with diligent compilation and effective efforts, has successfully assembled and published a comprehensive, easy-to-follow seminar manual: The Business Opportunity Seekers' Loans Manual, that will quickly show you practically everything you'll need to know to prepare a loan application to get federally Guaranteed and Direct Loans.

Here are just some of the many important benefits the Business Opportunity Seekers' Loans Manual provides you with:

- a completely filled in sample set of actual SBA loan application forms, all properly filled in for you to easily follow—helps you in quickly preparing your own loan application the right way. Each line on the sample application forms is explained and illustrated in easy-to-understand language.
- fast application preparation procedures for getting loans for both new start up business ventures and established firms.
- advises you on how to properly answer key questions necessary for loan approval and in order to help avoid having your application turned down—gives you advice on what you should not do under any circumstances.
- what simple steps you take to guarantee eligibility—no matter if you do not presently qualify.
- where you can file your application for fastest processing.

At this point the most important question you want answered is: Just where is all this loan money coming from? Incredible as it may sound—these Guaranteed Loans, Direct Loans, and Immediate Loans are indeed available right now—from the best, and yet, the most overlooked and frequently the most ignored and sometimes outright ridiculed, "made-in-U.S.A." source of ready money, fast capital, in America — THE UNITED STATES GOVERNMENT.

Of course, there are those who upon hearing the words "UNITED STATES GOVERNMENT" will instantly freeze up and frown and say:

...only minorities can get small business loan money from the government!

Yet on the other hand (and most puzzling) others will rant on and on and on that:

...don't even try, it's just impossible — all those Business Loans Programs are strictly for the Chryslers, the Lockheeds, the big corporations...not for the little guy or small companies...etc.

Still there are those who declare:

...I need money right now, and small business government loans take too darn long. It's impossible to qualify. No one ever gets one of those loans.

Or you may hear these comments:

...My accountant's junior assistant says he thinks it might be a waste of my time! "Heck, there's too much worthless paperwork and red tape to wade through!"

Frankly — such rantings and ravings are just a lot of "bull" without any real basis — and only serve to clearly show that lack of knowledge, misinformation, and not quite fully understanding the UNITED STATES GOVERNMENT'S Small Business Administration's (SBA) Programs have unfortunately caused a lot of people to ignore what is without a doubt — not only the most important and generous source of financing for new business start ups and existing business expansions in this country — but of the entire world!

Now that you've heard the "bull" about the United States Government's SBA Loan Program — take a few more moments and read the following facts:

- Only 9.6% of approved loans were actually made to minorities last year.
- What SBA recognizes as a "small business" actually applies to 37% of all the companies in the nation.
- Red tape comes about only when the loan application is sent back due to applicant not providing the requested information...or providing the wrong information.
- The SBA is required by Congress to provide a minimum dollar amount in business loans each fiscal year in order to lawfully comply with strict quotas. (Almost 5 billion this year)

Yet, despite the millions who miss out — there are still literally thousands of ambitious men and women nationwide who are properly applying — being approved — and obtaining sufficient funds to either start a new business, a franchise, or buy out or expand an existing one. Mostly, they are all just typical Americans with no fancy titles, who used essentially the same effective know-how to fill out their applications that you'll find in the Business Opportunity Seekers' Loans Manual.

So don't you dare be shy about applying for and accepting these guaranteed and direct government loans. Curiously enough, the government is actually very much

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The Power Of Questions

By Milt Grassell

Are you having trouble communicating, coping with difficult people or handling tough business situations? Do you accidentally offend customers, prospects and employees? Does your point of view get lost in a forest of arguments?

If so, perhaps it is time to consider a practical approach to effective business communication. Spend less time explaining and justifying your position. Learn to ask the right questions, and you can gently lead people to your own conclusions.

As any lawyer will tell you, questions have enormous power. By asking questions, *you* have control over the conver-



ILLUSTRATION: WILLIAM COULTER

sation. You have the choice of inserting important points and leaving out emotion-charged garbage that can turn a previously sensible conversation into a muddle. For instance, by beginning with "Don't you think . . ." and drawing the affirmative out of the other person, you can help make your partner think he or she originated the idea.

Regardless of how cantankerous or hostile people may be, psychologists point out that asking sincere nonthreatening questions will not increase their anger. Instead, the right questions will disarm them quickly.

The secret is to keep asking questions until the other person has nothing more to criticize or complain about. To

Milt Grassell is a free-lance writer from Oakdale, Calif. He has also conducted seminars on persuasion techniques for 15 years.

keep the information flowing, never interrupt or attempt to refute a statement. Wait until your partner has said all there is to say. Research shows this is the precise moment when other people—in spite of their attitude—will be most receptive to your position.

Disputes are inevitable in business. Confrontations can pop up any moment. Here are some illustrations that show how the power of questions can turn these problems around, make confrontations work for you and help you look more graceful throughout the process:

1. Encourage people to open up. Some business people are extremely tight-lipped; however, you can usually draw them out with a series of questions:

You: "Is it true you're planning to use some robots?"

Partner: "Well, we've talked a little about that."

You: "In what ways do you feel they can help?"

2. Discover attitudes. When you need to know how others feel or what they believe, ask such questions as: "Why do you feel that way toward entrepreneurs?" "Should we put more minorities in top management?"

3. Keep to the topic at hand. Whenever a response is irrelevant, ask such questions as "How does that relate to inventory?" "In what way does that affect the decision?"

4. Direct the conversation. When asked for advice, opinions or suggestions, most people never realize that they have lost control, nor do they suspect that your series of questions can lead them into talking about almost anything you wish discussed.

5. Handle insults. If you are insulted, resist the urge to fight back. Pause a moment, look the other person in the eye and say, "I want to make sure I didn't misunderstand. Please repeat what you just said." That challenge is bound to disarm the offender.

6. Verify questionable information. Never presume guilt. Always leave room for possible misunderstandings: "Do I hear you saying something different from what you said earlier?" "Just suppose you were faced with a customer who wasn't entirely open and honest with you. What would you do?"

7. Require support for charges. Rath-

Take control of sticky business situations by letting the other person talk.



er than trying to justify your position, use questions to put the burden of proof on your opponent: "Why do you feel the company is wrong?" "What facts do you have to support your accusation?"

8. Clarify meanings. Never accept implications, vague references or hints: "When you say you're satisfied with the new engines, does that mean you've had no trouble with them?"

There are only two kinds of questions: open-ended and closed-ended. Closed-ended questions can usually be answered quickly with a yes or no: "Are your offices open Saturday mornings?" "Who is your plant manager?" Open-ended questions require more thought and yield much more information: "Why are your offices closed Saturday mornings?" "Why did you suddenly change plant managers?" Armed with these two tools and the following



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About the Author . . .

Howard Raiffa has been at Harvard since 1957 and holds the Frank P. Ramsey Chair in Managerial Economics, jointly sponsored by the Graduate School of Business Administration and the Department of Economics. He is a frequent consultant to industry. As one of the outstanding pioneers of decision analysis, Dr. Raiffa has authored a number of major books on the subject.

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Pillsbury switched from a box to a bag for one of its grocery products—and even scrapped plans to undertake an expensive market test—when decision analysis indicated high expected profitability. The switch was successful.

General Electric decided to raise prices, rather than increasing manufacturing capacity for a mature industrial product. As part

of the strategy, R&D expenditures were increased twentyfold, and the decision resulted in highly profitable sales of some \$20 million a year.

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I certify that the statements made by me above are correct and complete.

Leonard I. Rippes, business manager

MANAGING YOUR BUSINESS

The Power Of Questions



tips, you can stay in charge of any conversation or confrontation, and everyone involved will feel as if they won.

Get the facts. Never jump to conclusions. Use questions to find out exactly what is on the other person's mind.

Start with easy questions. If you open the conversation by asking tough or sensitive questions, your partner will probably be turned off. People open up to questions they know they can answer. So start slowly, even if it means spending a little time discussing unimportant issues.

Stay calm. Keep your voice soft. Keep yourself under control. Never ask questions that are certain to threaten or embarrass your partner.

Preface questions with facts. Let your partner know what your perspective is. By giving a little, you might get a lot more back.

Ask short questions. Be direct and to the point. By piling on many subquestions, you might let your partner evade the most important issue.

Seal your lips after each question. No one will ever get angry with you for being quiet while they are collecting their thoughts. The silence can also work for you: It creates an invisible force compelling the other person to answer. Never be the first to break that silence if you want that force to work in your favor.

Let your partner know you listened. Repeat a few key words, paraphrase or make a summary statement. Your response in no way means you agree or disagree. It does encourage the other person to continue talking.

You do not necessarily have to take an aggressive stand to have your point of view understood and accepted by others. Gentle, clever questioning will lead your partner in conversation happily to your conclusions. **■**

What One Woman Wrought

By Valerie Bohigian

Life had reached a low point for Gelsomina "Gessie" Tassone in the early 1970s. Estranged from her husband and, at age 29, bringing up four daughters, she was working part-time as a pizza parlor cook and a bookkeeper and taking night business courses at a community college.

Tassone disliked her part-time jobs and felt uncomfortable in the classroom with younger students. "It was horrible," she says. "I felt old and out of place. Everyone was asked to tell what they had been doing for a living. I prayed they wouldn't get to me." When they did, she blurted out: "My name is Gessie, and I'm really just a mother." To her surprise, the class applauded and advised her to stop characterizing herself as "just" anything.

What had been a low point proved to be a turning point. Today, 13 years later, Tassone runs A&T Iron Works, a New Rochelle, N.Y., designer and manufacturer of structural and ornamental wrought iron grillwork with 21 employees and an expected gross of \$2 million in 1986.

Tassone's hard-won success had its roots in the dreams of a tomboy growing up in a crumbling section of New York City, the eighth and youngest child of a craftsman for the Archdiocese of New York. He built marble altars, worked on statues and affixed gold leaf—"work of permanence and beauty," says Tassone.

Her father's work spurred an interest in construction in her. "I used to stand on the East River Drive, look at the bridges and wonder, 'Who built them? How did they do it? How did the cement dry? What if the cement rots?'" While she wondered, she fished for eels and bass in the river. "There was no money for dollhouses," she says. "Fishing was free."

Poverty fostered a yearning for permanence in Tassone. "Because I had so little in the way of possessions," she says, "I wanted to build something that would last forever."

The dream, however, got put on hold through the series of events that led to her low point as a part-time worker and nighttime student. There was marriage

"We're a team," says A&T Iron Works President Gessie Tassone of her 21 workers, including Franklyn

After a false start, Gessie Tassone took control of her life and an iron works shop. She forged both into winners.

Cummins (left) and Francesco Branca. "We all do what we're best at and help each other when we can."



PHOTO: ANDY LEVIN

fresh out of high school, the daughters' births and a move to Monroe in Upstate New York, then divorce.

Her new start was typical of a woman who had dreams but who insists: "I am not a dreamer. You don't get anywhere by dreaming; you struggle your way to success, and once you get it, you struggle to keep it."

So it was with her classes: "I took the hardest courses I could find, thinking things would get easier as time passed."

Her classmates' insistence that she think more positively of herself led her to quit her unfulfilling part-time jobs and begin work full time as a bookkeeper/telephone answerer in an iron works shop. It was a one-man shop. The man was a friend from her old neighborhood—Armando Tassone.

She had a daily round-trip commute of 120 miles between Monroe and New Rochelle. The iron works shop, which did local residential railing jobs, was in a rented two-car garage with a telephone on the wall but no other facilities: no heat, bathroom, filing cabinets or typewriter.

Their friendship may have been strained at first because, she says, "Armando was happy with things the way they were. There were no debts, no loans, no charges, no checks. Everything was paid on the spot with cash. I put Armando in debt."

The business was tiny, grossing only \$20,000 a year. Gessie set about changing that. She taught herself how to read blueprints, learned about various types of grillwork jobs and became skilled at buying and designing construction equipment. Her friendship with Armando grew into love, and they were married in 1979.

Gessie is president and chief operating officer of A&T, and Armando is secretary and treasurer. Armando, who is happiest out in the field with the crew, is delighted with the arrangement. "She's the entrepreneur," he says. "Nothing stops her."

When she was ready, Gessie took the company into debt to make it grow. "I'm not afraid of debt," she says. "You need 'float' to grow, and I knew I could pay it back." She took a \$3,000

Valerie Bohigian is a North Tarrytown, N.Y.-based free-lance writer.

LESSONS OF LEADERSHIP

What One Woman Wrought

Hiring wisely figures in the Tassones' success. Before they married, Armando (right) hired young Gessie to help with his small business. After they bought the G. Zaffino & Sons

iron works firm, they hired Joey Zaffino (middle), the founder's grandson and an award-winning engineer.

coin collection to a bank to see if the collection, which dated back to her childhood, would be accepted as collateral. The loan officer declined but was impressed enough to give her an unsecured \$5,000 loan.

Then she sold her collection at nearly twice its face value, borrowed additional money from her family and persuaded an aging local iron worker to sell his dwindling business and the shabby building that housed it for \$90,000. She renovated the neglected structure and divided it in half. The Tassones incorporated the two businesses into A&T Iron Works and set up shop in one of the two halves of the old building, hiring iron workers and office help. The other half was rented out "so we could operate rent free and give the business a real chance," Gessie says.

"Her energy is incredible," says Edward Resk, president of metal bracket supply company Davis & Sanford, an A&T customer. "Gessie's on top of everything. If you want something done, she's the one you call. A&T provides excellent, prompt service as well as design. Gessie insists on it."

A&T Iron Works got its first big break in 1980—a contract with the New York Housing Authority to build 125 balconies for apartments in the South Bronx. "I bid low on the job and made a deal with a supplier who agreed to take just a deposit until the housing authority paid us," Gessie says. The authority paid \$92,000, "and that was a big job for a beginner."

She brought in another small steel shop and bid successfully for more housing authority contracts and other city jobs. She then bid on private sector jobs and won contracts from hospitals, universities and major corporations such as Consolidated Edison, New York Telephone, IBM and Anheuser Busch.

Meanwhile, Armando built up a customer list of small firms and homeowners. A&T's business became 80 percent commercial and 20 percent residential. Gessie felt it was time to think about expanding to a larger location. She turned to the minority and women's business division of the New York State Department of Commerce for advice on how to get the financing needed. Says the division's financial consultant, Edward J. Tobiasson:

"Mrs. Tassone wanted advice on how to approach her bankers, how to convince them of her ability to take on additional debt, what to stress, how to



prove that her company's profits would increase as a result of the expansion. She struck me as exceptional—very motivated, very persistent."

As A&T grew, Gessie Tassone invested in equipment that would enable the company to offer a wider range of services and to complete jobs faster and more economically. In 1983 she capitalized on the fascination she had always had with bridges, subcontracting to do work beneath the Brooklyn Bridge. A&T manufactured and installed railings, gates and catwalks for a bridge museum on the waterfront. "The closest we've come to building real bridges," laughs Tassone, "is constructing walkway bridges over little ponds. We're not set up for real bridge building, I'm afraid."

The management technique required to build bridges is reflected in Tassone's own management philosophy. "Bridges are not built by the person on the top who is often given all the credit, but by teams," she says. "Bridges would never get built without everyone doing what they do best. That's the way I feel about A&T. We're a team. I hate the word 'boss.'"

Tassone stays close to her workers, most of them men. "Everyone is equal," she says. "Everyone does his or her share to complete a job. Anyone can come in and talk to me anytime. There is no such thing as 'This is your job, that is mine.' We all do what we're best at and help each other when we can."

She has made her mark in a traditionally male business in part, she says, because she is a woman: "I think it's an

asset. The guys think I'm sympathetic, understanding. They'll call me and tell me they're coming in late because they drank too much the night before. They couldn't be that honest with Armando."

Armando agrees. "She's too soft-hearted and good, sometimes," he says. "But it usually works O.K. for her."

Says Mike Leone, director of operations for Globe Fence, of New Rochelle, which competes with and often works with A&T: "When you deal with Gessie, you're not dealing with a woman business owner. You're dealing with a business owner who is fair, sharp and knows how to get things done."

In 1985 A&T bought G. Zaffino & Sons, an 85-year-old iron works firm—a purchase that permitted A&T to expand into small and large structural steel framing. Gessie took over the larger and better laid out 18,000-square-foot Zaffino site, which she immediately began redesigning. The project is ongoing, because she firmly believes employee comfort creates a happy work environment that maximizes productivity.

"She's one in a million," says construction colleague Silvio Ruta, owner of Campobasso General Contracting in New Rochelle. "Gessie is a tough lady in the right way. Tough, yes, but sweet, too. She knows what's going on, even if she's not there. You can't fool her, and you never mess with her. She's very smart—began with nothing and went higher and higher. She has a golden heart, that iron lady." ■

Innovators

By Sharon Nelton

Management By Minimalism

From his experience starting at age 21 in working for large companies, Ken Boxley knew they were not for him. Too much bureaucracy, he says.

"I discovered that I could do a lot more for a company if given my head," says Boxley, now 59. "If it would let me do what I wanted to do, I was far more effective than being put into a harness and told to do something a certain way."

So in 1972, when he founded United Publishers Corporation, a Beverly Hills, Calif., company that produces Yellow Pages directories, he was determined to make it grow but at the same time avoid building a bureaucracy.

His solution: Create a bunch of independent small businesses, have them operated by their own presidents and keep hands off.

The result: a 200-employee enterprise with six regional businesses—more are planned—publishing 45 directories in Southern California and Portland, Ore. Boxley got his wish of running a small firm by setting up a holding company with a staff of four—himself as chairman and chief executive officer, a president, a chief financial officer and a controller.

Neither the holding company nor the subsidiaries have secretaries. If Boxley wants to write a letter, he does it himself by hand.

Under his system, the president of a new regional company comes up with a five-year business plan before the company begins operation. After that, Boxley may see the president as infrequently as once a year. Presidents supply Boxley with regular monthly reports, but no special reports are generated for headquarters. If Boxley spots a problem, he gets on the phone.

As a rule, Boxley does not even go to the offices of his presidents. "I don't want to make somebody within their organization think that there's somebody else in charge of their company," he says.

While United Publishers does have an operations manual, it is meant to

serve only as a guide to what is successful. Boxley says he encourages deviation, as long as the regional president lets headquarters know in advance.

"We don't want the president of a subsidiary ever asking us for permission to do something," says Boxley. "We're trying to discourage the idea that he's working for somebody other than himself."

The plan works. Annual revenues reached \$18 million in 1985, with growth of 511 percent over five years.

Ironically, United Publishers has been so successful that giant Nynex

The value of not bothering your managers; what to do when work drives you crazy; eavesdropping on your customers.

Corporation bought it in August. According to Nynex, United Publishers will operate independently under Nynex Information Resources Company, the major publisher of telephone directories in the Northeast.

Will this mean the demise of Boxley's minimalist management? Maybe not. David L. Wibbelsman, president of the Nynex subsidiary, assured United Publishers employees by letter that there would be no change in the way their company operates. Boxley says he selected Nynex because "they were willing to put into writing" their intention of retaining his system.

When Your Work Life Drives You Crazy



Your career and your organization can be dangerous to your mental health. That is the message of the provocative book, *Modern Madness: The Emotional Fallout of Success* (Addison-Wesley), by Washington psychoanalyst Douglas LaBier.

There is mounting evidence, he says, "that work can create a variety of psychiatric problems." In a seven-year study, he looked at why so many suc-

When Your Work Life Drives You Crazy

cess-oriented career professionals—the “new careerists”—become troubled or emotionally damaged by their work lives.

Today's professionals display a hard-driving ambition to succeed, LaBier found. At the same time, they experience a desire for more development and fulfillment than the workplace provides, a desire that often clashes with their ambition.

“The career drive, despite its many pleasures and rewards, can generate a range of potential emotional and value conflicts, many of which are hidden or disguised,” LaBier says.

He describes two basic victims of “modern madness.” First, under a category he calls “Surface Sanity,” are the fast-track executives whose negative qualities are intensified by the workplace. They appear normal. Underneath, however, they “are dominated by irrational passions like power-lust, sado-masochism, fantasies of conquest and domination, narcissism and grandiosity, glory seeking, and desires for subjugating and destroying others.” On the job, they come across as aggressive and competent, people who enjoy power and getting things done, perhaps ruthlessly.

Not infrequently, they suffer from troubled intimate relationships or have no intimacy at all, LaBier says, and display quirky behavior in other aspects of their lives.

In the second category are the “Working Wounded”—individuals who are basically normal but troubled as a result of the adjustments they make to the workplace. The adaptations the employee makes to the values or conditions of the organization may be “good for advancement but impoverishing to the spirit and sense of identity,” says LaBier. The individual may feel an inner emptiness.

Troubled careerists are likely to remain in conflict with themselves as long as they try to obtain fulfillment solely or primarily from their careers, says LaBier. For their emotional health, they will have to make some drastic changes.

While one careerist may leave a large organization and start a small-scale business in order to spend more time with his or her family, another may have to find ways of getting fulfillment outside of work—such as Joe, a dissatisfied lawyer who found meaning as a volunteer teaching illiterates to read.

But a careerist may need professional help to make such shifts in values

and goals, and here LaBier is harsh with his psychoanalyst colleagues, charging that too many of them look only at childhood conflict as the source of disturbance.

In choosing a therapist, he advises, careerists should make sure the therapist shows some “recognition of the realities of careers in big organizations, in which most of us work.”

What can business do?

“What is needed,” LaBier says, “is the creation of opportunities within organizations for *development* on the job: new skills, participation, decentralization, the creation of meaningful work in the job market that taps into the high level of motivation, ambition and education of the new careerist; that taps the positive motives rather than inhibits them or strengthens the negative.”

Picking Up The Clues



ILLUSTRATION: BOB ADRIELLO

Don't just listen to your customers. Eavesdrop on them.

Courtney Garton and Margie Bryce, founders of Hats in the Belfry, a chain of company-owned and franchised hat boutiques, urge their salespeople to keep monitoring customers even after they have said, “No, thank you, I don't need any help.”

Listening to customers talk to their friends or even to themselves may help

Quoteworthy

“[One] thing I would do in business school is expand the management of organizations courses to include the human side of it—how things work in organizations, the psychology and politics of organizations. A lot of folks come out of B-school really trained to be higher-up managers, not foot soldiers. They can run into a lot of frustrations early on when it looks as if things ought to be so simple. Fifteen years later, they figure out that sometimes things aren't politically possible, even if they are right. The job you ultimately get paid for is getting people to do something you want them to without their knowing that you want them to do it.”

J. Jeffrey Campbell, chairman and chief executive officer, Burger King, quoted in Hermes, the magazine of Columbia Business School.

you make a sale. But more important, over the years Garton and Bryce have found that tuning in on customers has helped them make many, many sales by teaching them what people wanted.

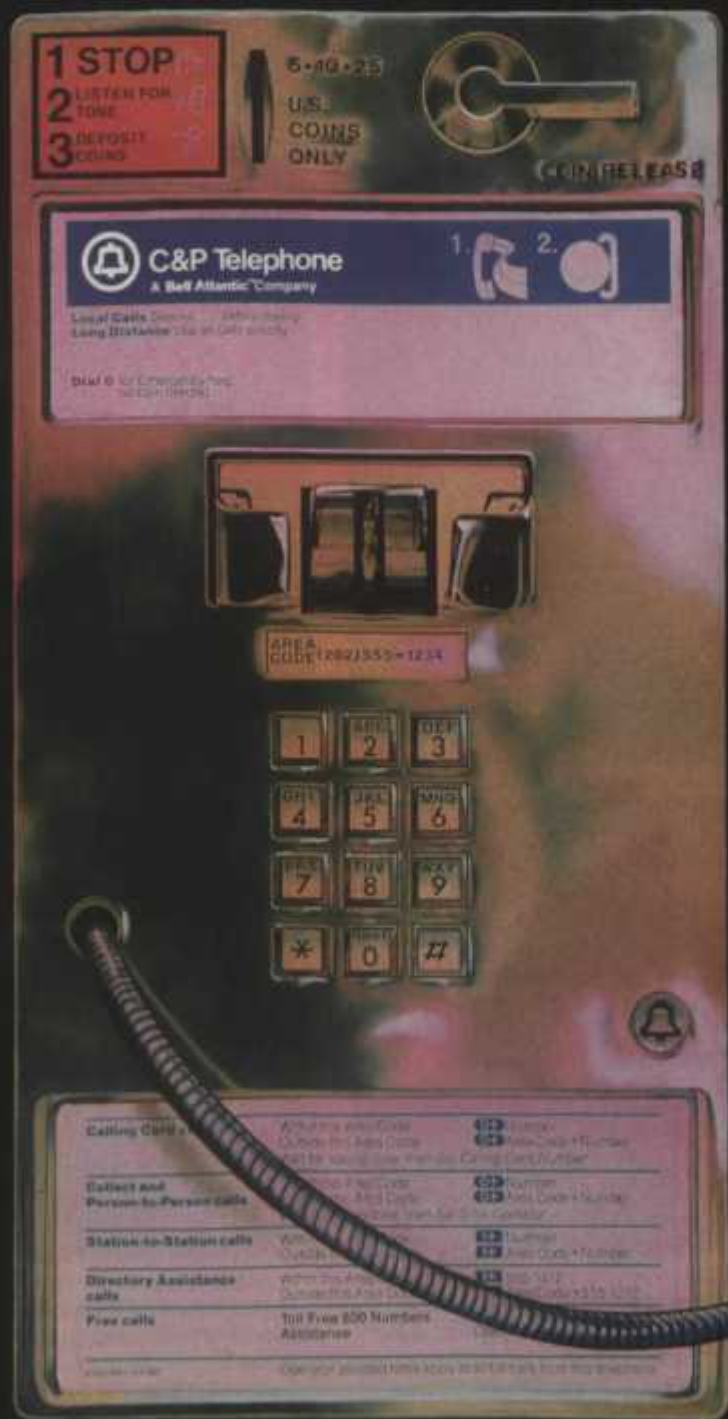
When they opened their first shop in Annapolis, Md., eight years ago, says Bryce, they thought hats were just a sideline and people wouldn't spend much money on them. So the husband-and-wife team stocked up on lower-end items costing \$6 or \$7.

They soon learned that they could sell a lot more hats if they raised the quality level. Customers would not complain about the quality directly to Garton or Bryce, but they would tell each other, “It looks good but it looks a little cheap,” or, “The stitching is not straight.”

When Garton and Bryce went to higher-priced, better-made hats, not only did sales improve, so did profit margins. Although some of their hats, such as baseball caps, still are low-priced, some of their toppers—such as fur hats or one-of-a-kind items—can relieve a customer of as much as \$250.

The company grew along with the prices. This year there are 11 Hats in the Belfry shops in cities around the country, from New Orleans to New York, from Philadelphia to St. Louis, and Garton and Bryce expect the stores' sales to reach \$4 million.

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Aircraft and auto manufacturers are in the forefront of Indonesia's industrial revolution. Fast developing high tech and service

industries are also propelling the country toward an impressive new status among the bustling Pacific Rim countries.

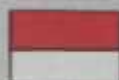
Jakarta, one of Southeast Asia's boom towns, is transporting Indonesia beyond its oil and gas wealth into new, lucrative fields.



PHOTOS: INDOONESIAN INVESTMENT COORDINATING BOARD (INPWI)



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Indonesia is a 13,000-island emerald belt stretching along the equator, covering an area larger than Alaska and California combined. It is the world's fifth most populous nation. It is abundant in most of the world's economically important natural resources. And yet, despite its four-century trading tradition, many American business people are still not aware of Indonesia's enormous investment potential.



During the past two decades Indonesia has been experiencing a genuine industrial take-off in the fields of textiles, fertilizers, aircraft, automobiles, steel, paper, cement, furniture, plastics, glass and electronics.

President Soeharto, in his August 17 Independence Day address, said his country is striving "to lay even stronger foundations for economic democracy." Indonesia, he said, is making "continuous at-

Indonesian policymakers are looking abroad more actively than ever for capital, investment skills, technology transfer and markets.



tempts to create a still attractive climate for foreign companies to participate in our development, by investing their capital and by other forms of cooperation."

Indonesian policymakers are looking abroad more actively than ever for capital, investment skills, technology transfer and markets. Indonesia's oil revenues are shrinking, and the government is trying to stimulate new investment in non-oil-and-gas sectors. The country is experiencing a capital crunch.

Refinements are continually being made to the system of import and export payment and documentation, following the appointment of Société Generale de Surveillance last year to supervise customs, cutting costs and time for all traders.

A high-ranking committee has been established under the State Minister for the Utilization of the State Apparatus, Saleh Afiff, to examine and speed up all disbursements of foreign-aided project financing. Another committee was created, even more recently, to formulate up-to-date patent and copyright laws.

Parliament is expected to act this year on patent legislation, but details, like the proposed exemption of pharmaceutical companies from the law, have yet to be finalized. As for copyright protection, Indonesia currently provides protection to the first user of a trademark. Last August a commission on copyrights was formed, chaired by Cabinet Secretary Mardiono. The outlook for a range of intellectual property rights for foreign firms is now very positive.

Indonesia's long-term strategy for economic development is aimed at "creating a balanced economic structure founded upon further strengthening and diversifying our manufacturing sector while building a more efficient and productive agricultural system," explains the Minister of National Development Planning, J.B. Sumarlin.

What this means for the foreign investor is an emphasis on industries that will produce the highest levels of real net added value, and which will contribute to the development of technical, mechanical and managerial expertise. In May of this year, a significant new package of investment policies was introduced.

Indonesia's current five-year growth plan (Repelita IV, 1984-89) places its major emphasis on the special role of the private sector in development.

Indonesian workers, like this rubber industry employee, are valued for their hard work, modest wage demands and desire for new job skills.



Pivotal to any foreign firm's entry to Indonesia is the Investment Coordinating Board (the Badan Koordinasi Penanaman Modal, or BKPM).

The body has seven major functions: To prepare investment policy and plans, to formulate investment priorities, to develop promotions to attract investment, to formulate the range of incentives and facilities needed, to review all investment applications to ensure they meet all requirements and to assess their feasibility, to issue permits and licenses and to supervise and control the implementation of projects, including the handling of amendments.

BKPM is becoming a one-stop investment shop. At its headquarters (Jalan Gatot Subroto 6, Jakarta) can be obtained the latest Scale of Priorities for Capital Investment (the "DSP" list), lists of potential joint venture partners and detailed background papers on taxation, investment procedures and project information.

The 926 areas now open to foreign investors, as listed in the DSP, have almost doubled in the last year. Most of this increase occurs in the industrial sector, e.g., basic chemicals, machinery and basic

metals industries. Areas such as housing estates, hotels and the garment industries have also been significantly opened up to foreigners this year.

The main restriction remains on small and medium-sized industries, which continue to be reserved for domestic investors. As the chairman of BKPM, Minister Ginandjar Kartasasmita, explains, "They are mostly ventures that need only small capital and simple technology with limited scope of marketing, mostly regional in nature, and therefore may not be of interest to foreign investors."

However, if a foreign company takes a cooperative as its joint venture partner for at least 20 percent of its equity share, special investment facilities can be made available, including the right of entry to areas otherwise restricted.

The most promising areas for American investment are aquaculture, food processing, food storage, furniture manufacturing, wood products, computer software and other light and medium industry. Agribusiness is one area that offers opportunities to both domestic and foreign investors who can capitalize on the consistent strength of the agriculture sector (which continues to grow by at least 3 to 4 percent a year). A shift toward food processing is encouraging the development of agriculture-related industries such as canning plants and cooking oil refineries.

An important point for any new investor to realize about the process and procedure of entering the Indonesian economy is the new flexibility on the part of the government planners.

In 1985, investment application procedures were streamlined. Investment procedures hinge on a basic distinction between foreign and domestic capital, with the latter traditionally being afforded more advantages than the former. However, it is precisely this distinction that has been radically altered in the regulations revised or added this year.

Known collectively as the May 6 package, the measures are expressly intended to generate economic growth within targeted sectors of the economy, namely, non-oil and gas exports and the stimulation of foreign and domestic capital.

Foreigners can contribute equity to the Indonesian economy through two main entities, a PMA or a PMDN company. A PMA



Palm oil is but one of numerous products this rich land offers to agribusiness investors. Food processing is a good bet now.

Declining oil revenues are spurring ambitious efforts to diversify the country's nonenergy industries, says KADIN Chief Sukamdani Gitosardjono.



PHOTO: INDOONESIAN INVESTMENT COORDINATING BOARD (BKPM)

company (the initials are an Indonesian acronym) is a joint venture between foreign equity and an Indonesian PT (limited liability) shareholding company. While a PMA may have a majority foreign shareholding for the first decade of its existence, a schedule of divestment is required. PMAs are more restricted in market and investments access than a PMDN company. The latter is a wholly Indonesian owned entity.

New Incentives

It is the balance of incentives and allowances between these two types of firms that has been changed most by the May 6 package. Many foreign firms (PMAs) seek to become as "local" as possible so as to make use of the greater advantages available to PMDNs. A PMA may operate in Indonesia for 30 years, and this period can now be extended for an additional 30 years if a PMA increases its investment in Indonesia. This can be done by way of diversification, increasing production capacity or by increasing the value-added or local content of the product.

On the subject of equity share, the May 6 package now allows a PMA to be set up with just 5 percent Indonesian ownership. This is allowed for firms that are setting up a high-risk venture that requires large capital (\$10 million or more) or high technology or a venture that will produce entirely for export. Similarly, a PMA set up in an outlying area (defined as 10 provinces outside Java) can be established with only 5 percent Indonesian equity.

On the subject of divestment rules, the May 6 package allows for more flexibility for foreign firms. The basic rule is that di-

vestment should take place 10 years after the start of commercial production by a firm. At that time, at least 51 percent of a PMA's shares must be Indonesian owned. An extension of five years may, however, be granted. Techniques of divestment have also been broadened. A foreign partner can sell shares to the current local partner, find other Indonesian buyers, transfer shares to Indonesian banks or other financial institutions, or "go public" by trading shares on the stock exchange.

Repatriation Of Profits

Foreign investors have always been permitted to repatriate profits or to reinvest in their own companies within Indonesia. Following the May package, profits can now be invested in new ventures in the country or in shares of other existing companies. Proceeds from other resources can also be invested locally by companies already established in Indonesia.

A minimum investment level of \$1 million has been set for foreign firms; this refers to the total investment, not just what the investor has to bring into Indonesia. This minimum level may now be waived if the investing company will meet other national goals, namely promoting non-oil-and-gas exports. Foreign investors may invest in any sector if the product is designed entirely for export, and since May the meaning of "entirely for export" has been redefined to allow for 15 percent of the company's product being sold on the domestic market.

Agribusiness

In the field of agribusiness, old rules have not helped investors find real opportunities



PHOTO: THE JAKARTA POST

for investment. The May package also addresses this issue, with special reference to oil palm estates and shrimp cultivation, described by Ginandjar as "among the two most attractive fields of investment the country can offer." Oil-palm development takes place through "Smallholders Nucleus Estates," which include the estate operated by the investor and the smallholders "plasma" estate. A new and easier ratio has been set at 40-60 for the first 10 years of operation, reverting to 20-80 after that.

Shrimp cultivation, through "Smallholders Nucleus Ponds," had a similar ratio ruling, which has now been altered permanently to 40-60. Shrimp cultivation areas newly developed outside Java can operate on a 60-40 ratio in favor of the investor.

Investment Guidelines And Infrastructure

Many incentives are now available to approved foreign investors. For example, unrestricted foreign exchange transfer and exemption from, or reduction of, import duties on items not available locally are provided. Special consideration is given to investors setting up export-oriented manufacturing, including the establishment of bonded export processing zones. Although the Department of Trade continues to be responsible for appointing some Indonesian firms as sole importing agents, restrictions on importing capital goods to retool industrial plants have been lifted.

International air links with Indonesia are increasing, especially to the island of Bali, where Garuda, the national carrier, recently relinquished its monopoly over

Indonesia's 13,000 islands form a tropical paradise with great potential for the resort development investor. As Asian countries grow richer, their

expanding affluent classes have more money to spend on vacations in places like this beautiful and cultured land.



PHOTO: INDOONESIAN INVESTMENT COORDINATING BOARD (KADIN)

landing rights. An attractive new international airport was opened in Jakarta in 1985.

The government is encouraging foreign participation and financing for toll road construction and management in Java.

Indonesia's Minister of Trade, Rachmat Saleh, concludes that the prospects for foreign investment in Indonesia remain good: "Indonesia has a great potential in natural resources and a large population, and thus a good domestic market which could serve as a promising base for any investment. Add to that the fact that there is political and social stability, a free exchange system, and above all, a responsibly and prudently managed economy, and all these factors should work in Indonesia's favor."

The United States, as Indonesia's premier trading partner, has an interest in seeing Indonesia's economy prosper. The country's growing ability to produce has already been noticed by American buyers, who last year spent almost \$5 billion on Indonesian goods, \$1.5 billion of which was on non-oil-and-gas products. In return, Indonesians bought \$2.5 billion worth of goods from the United States.

Indonesian Chamber of Commerce

One of the most important bodies of expertise and contacts for any U.S. business person wishing to penetrate the Indonesian market is the Indonesian Chamber of Commerce, KADIN.

KADIN's role in the Indonesian economy is much larger than groupings of business people in many other nations. KADIN has committees covering all major product groups as well as groups dealing specifi-

cally with bilateral trade between key countries. In 1985 it was entrusted by the government with the task of initiating direct trade with China after a 20-year lapse in relations between the two countries. KADIN aims not only to increase business opportunities for its members, but to foster harmonious cooperation between state enterprises, cooperatives and the private sector of Indonesia.

Trade

Indonesia is producing an increasing range of goods sought in the United States. Half of Indonesia's textile exports go to Americans. President Ronald Reagan's decision to effectively veto recent textile protectionist legislation was greeted with a sigh of relief in Indonesia.

Apart from oil and gas, accounting for about 70 percent of export revenue, Indonesia sells mostly commodities and manufactured goods. Although world price and market movements for many commodities have not been favorable to commodity-producing countries, Indonesia has managed to maintain a roughly 70-30 split of oil and gas against non-energy exports.

As the World Bank observes, "Indonesia's greatest potential for new growth lies in manufacturing—where it has the potential to capture a much larger share of the world market for labor-intensive products." Over the past two years, Indonesia has achieved a diversification in its manufactures. Virtually all of Indonesia's tin and nickel output is geared for export. Other exports include rubber, coffee, tea, fish and fish products, vegetable oils, rice, spices and tobacco. The chief manufacturing export items are plywood and veneers,

textiles, fertilizer, cement, iron and steel, floor coverings, machine parts, and television, transistor and semiconductor apparatus. Nonetheless, studies on Indonesia's success with non-oil-and-gas exports continue to show how the volume and value of these exports are impeded by the complex international web of tariff and nontariff barriers.

Tourism

This is a rapidly growing industry in Indonesia. The main lure is the fabled island of Bali, with its mix of fine hotels, white sand beaches, balmy weather, rich local traditions and colorful festivals the year round. A wealth of handicraft shopping made it the favored destination for most of the 700,000 tourists who visited the country in 1985. Club Med expects to open in Bali at the end of the year. Other world-class chains are already in operation.

The national airline, Garuda, is rapidly expanding opportunities for chartered flights to land at Bali's recently expanded international airport.

KADIN's Vision

Remarks of Sukamdani S. Gitosardjono, chairman of the Indonesian Chamber of Commerce (Kamar Dagang Dan Industri Indonesia—KADIN).

The windfall days of the oil price boom have gone and Indonesia has turned its attention to the promotion of its export of nonoil commodities.

According to the Indonesian Government, domestic and foreign investments as well as domestic products must be encouraged by reducing various handi-



Indonesia offers investors cheap labor, political stability, abundant resources and government help, says BKPM Chairman Ginandjar Kartasasmita.

caps through the "May 6 Policy." This policy is not only aimed at coping with this year's economic crisis but also has a long-range character.

The package comprises three main areas, namely the nonoil drive, general investment and agricultural investment. To increase domestic and foreign investments, the government has also formulated a new priority list giving more room for foreign investment.

To increase our nonoil earnings from the tourism sector too, we are supporting a more integrated approach between the government and the private sectors. Though it requires a lot of funding to sell any tourism object or place, we are sure that tourism will also play an important role in the near future in the economic, social and cultural fields.

These are the issues facing KADIN as a partner of the Government of Indonesia. In this context we look forward to what can be done to enhance our trade cooperation in particular and the economic benefits of us all.

BKPM's Investment Goals

An interview with Ginandjar Kartasasmita, chairman of Indonesia's Investment Coordinating Board (BKPM).

What are BKPM's foreign investment goals—in monetary terms—for the remaining years of Repelita IV, the current five-year growth plan?

The main goal of BKPM's investment mission to the United States is to stimulate investments from the private sector. With oil revenues being down as Indonesia's



PHOTO: INDOONESIAN INVESTMENT COORDINATING BOARD (BKPM)

major source of revenue, more private investments are required to meet the future development needs of the country. Such investments can come from within Indonesia or from abroad. Both domestic and foreign investments are treated equally in Indonesia. At present, the majority of investments come from abroad and about 43 percent from the private sector.

What does BKPM consider Indonesia's greatest assets to attract more foreign investments?

As compared with the other ASEAN [Association of Southeast Asian Nations] countries, what Indonesia offers to foreign investors are:

- Political stability. The president is chosen in a popular election for a five-year term with the next presidential election set for March 1987. Indonesia has democratic legislative and judicial branches that maintain a system of checks and balances.
- No visible enemy and no threat from outside.
- A land rich in the quality and quantity of natural resources, except iron ore.
- A population of close to 170 million that represents a large pool of cheap labor, as well as the potential for a huge market.
- A government that is known for its prudent and courageous economic policies. The government had the political courage to postpone \$20 billion worth of projects in 1980, it devalued when necessary, and it has shown itself capable of being tough on its own bureaucracy. For example, bringing in SGS (the Swiss surveying company inspecting imports and

exports) reduced the cost of transportation by 30 percent.

The economic pillars of the country are:

- Freedom of currency flow. In other words, unrestricted repatriation of profits. Indonesia has no black currency market. Without controls, however, our currency is sensitive to fluctuations.

- A balanced budget. Governmental expenses will never exceed revenues.

- A controllable inflation rate of below 5 percent.

- A healthy economic growth rate of around 3 percent.

What advice would BKPM give to a new-to-the-market investor from the United States?

There are many different criteria to consider. The most important guidelines are:

- Research and identify clearly the opportunities that exist.

- Choose the right local partner. BKPM can help in this selection process.

- Be patient. Indonesia's government apparatus is big and sometimes difficult to access.

However, one should not have to be too patient either. If there are unnecessary and unjust delays, I would personally want to know about it.

- Do not adjust to corruption. We appreciate the American way of doing business and want to assure you that we are working as fast as possible to eradicate corruption. Reforms are already under way. If an American company encounters problems, I invite them to seek BKPM's assistance. ■

The Facts

Land Area: 736,000 square miles (2 million square kilometers)

Population: 170 million

Work Force: 67 million

Capital: Jakarta

Agriculture: Rubber, timber, palm oil, sugar, rice, corn, coffee, tea

Resources: Oil, natural gas, tin, gold, silver, copper, nickel, bauxite, coal

Major Islands: Java, Sumatra, Sulawesi, Kalimantan, Irian Jaya

Literacy Rate: 67 percent (1980)

Annual Growth Rate: 2.1 percent

Major Markets: Japan, United States, Singapore

Currency: Rupiah

Acknowledgements

Embassy of the Republic of Indonesia (Soesilo Soedarman, ambassador; Mohammad Seng Paselleri, minister-counselor); Indonesian Investment Coordinating Board (Minister Ginandjar Kartasasmita, chairman); KADIN Indonesia (Sukamdani S. Gitosardjono, chairman).

Harvey Goldstein (president of Asia Pacific Council of American Chambers of Commerce; former president, American Chamber of Commerce of Indonesia); Hill and Knowlton, Inc.; U.S.-Indonesian Joint Investment Committee (Ambassador Soesilo Soedarman, chairman); American-Indonesian Chamber of Commerce (Wayne Forest, executive director).

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To Your Health

By Selwyn Bleifer, M.D.

Mention heart disease, and many of us think of pain, disability or even death. With good reason. Heart disease is the leading killer in this country—nearly 600,000 people succumb to heart attacks every year.

And, according to the American Heart Association, more than 2 million men and women 45 to 65 years old have some form of recognizable coronary heart disease—during the very years when they might ordinarily expect to achieve peak earning power and job recognition.

Many of these known heart disease victims can be restored to a normal or near-normal lifestyle. Much more difficult to treat, however, are an estimated 2 million additional Americans who are also heart disease victims but whose problem is not noticeable.

They have silent ischemia, a condition that is painless but life-threatening nonetheless.

Of the 600,000 cardiac-related deaths each year, 300,000 are sudden. Several of my colleagues and I believe that as many as half of these sudden deaths are attributable to heart disease that is silent and has gone undetected and untreated.

Both silent ischemia and its painful counterpart, angina, are caused by the same underlying coronary heart disease—ischemia—which results at times in an insufficient flow of blood and oxygen in the arteries feeding the heart.

When the heart does not receive enough oxygen, it sometimes responds with an angina attack, a cramping pain in the chest that usually travels down the inside of the left arm. The attack can also cause a feeling of suffocation and impending death.

But for reasons unknown, a person with silent ischemia is completely unaware of his or her condition. The heart's shortage of oxygen produces no pain or other symptoms.

Angina attacks are usually caused by excitement or physical exertion. This increases the heart's demand for blood

A small instrument worn by the patient, the Holter monitor records heart activity over a 24-hour period and can detect silent ischemia.



and oxygen, which the narrowed coronary arteries simply can't supply in sufficient quantities.

By contrast, episodes of silent ischemia frequently occur under relatively calm circumstances—when an individual is reviewing a report in the office, watching television, talking on the phone to a client or even sleeping.

Silent ischemia is not limited to people who do not realize they have heart disease. Many people who fall into the category of recognizable heart disease victims also have silent ischemia.

A 56-year-old physician suffered a heart attack several years ago and recovered sufficiently to resume his full-time practice. Later, a routine treadmill stress test he took produced abnormal results. He had no chest pain, but further testing revealed severe coronary disease. This victim of silent ischemia underwent a triple bypass operation.

To detect silent ischemia, a physician's most reliable tool is a Holter monitor, an electrocardiographic recorder the size of a Sony Walkman, worn by a patient for 24 hours to record heart activity. Often the patient is told

Many of us have a form of heart disease and don't know it. But there are ways to reduce the risk of sudden death from silent ischemia.

to keep a log of his schedule for the day so the doctor, analyzing the monitor's tape, can identify what the patient was doing when one or more painless attacks occurred.

Which patients might a physician suspect as having silent ischemia, so they can be tested with a monitor?

Doctors watch for prior indications of heart disease, high blood pressure, high blood cholesterol level, obesity, smoking, insulin-dependent diabetes and a family history of diabetes.

I advise victims of silent ischemia to stop smoking, decrease the cholesterol in their diet, lose weight and take medication to control high blood pressure. Even when they do, however, the disease can persist. From my perspective as a doctor, close monitoring and medication are the key elements.

The therapies used to control silent ischemia are essentially the same as those used to control and prevent angina attacks. However, the small nitroglycerin pills placed under the tongue to relieve the sudden onslaught of severe chest pain are of no use with silent ischemia, because a person with this condition has no indication that an attack is in progress. Daily medication that can provide around-the-clock protection is required instead.

Transdermal nitroglycerin patches worn like adhesive bandages represent the newest drug delivery system for treatment of silent ischemia. A patch is applied to the skin by a patient only once a day. It provides protection via a 24-hour release of medication through the skin directly into the bloodstream.

Preliminary results of a study at the University of California at Los Angeles medical school show that the number and severity of ischemic episodes decreased while patients were wearing transdermal nitroglycerin patches. In many patients, episodes recorded on Holter monitors were reduced to zero.

What can you do if you think you are at risk for silent ischemia? See your doctor. If your physician confirms that you are a victim, a combination of lifestyle changes and proper medication may prevent your ailment from progressing into a more serious, painful form of heart disease. ■

Selwyn Bleifer is associate clinical professor of medicine at the University of California at Los Angeles, as well as chief of cardiology at Brotman Hospital, Los Angeles.

For Your Tax File

By Gerald W. Padwe, C.P.A.

Planning For Tax Reform

Tax reform makes large purchases—say, a brand new Rolls-Royce—attractive for this year. Next year, the sales tax deduction will be gone.



PHOTO © MICHAEL AZZA

In about two months we will be hit with what retiring Sen. Russell Long (D-La.) calls "the most important tax changes in our country in the last 50 years."

Tax rates will be coming down for many taxpayers in January, but keep in mind a few actions you can take before 1986 and the existing tax law slip into oblivion.

Contributions. If you want one last chance at a major tax deduction against high-taxed income, consider a charitable lead trust for 1986. Setting up such a trust is extremely complicated and will require the help of a tax adviser and lawyer. If properly structured, the trust can gain you a substantial deduction in 1986 against dollars taxed at, say, 50 percent and earn income taxed at substantially lower rates in future years.

Sales tax. If you are planning on buying a big ticket item—a car or boat,

for example—do it in 1986. Sales taxes are deductible through December 31, but not after that.

Securities transactions. For most, capital gains taxes on securities held more than six months will go up next year, not down, because the distinction between long- and short-term transactions will disappear. If you have potential long-term gains and are considering selling the security, do it in 1986. Rates on your short-term capital gains, on the other hand, will likely decrease next year. If you have appreciated stock held less than six months, it may well make sense not to sell until January.

Losses are more complex. A long-term loss in 1986 must be reduced by half before offsetting it against ordinary income (and then, only up to \$3,000), but it could shelter income taxed at 50 percent. In the future, the loss need not be reduced by half, but it would offset income (up to \$3,000) taxed at a top rate of 38.5 percent in 1987 (when the tax cuts are not fully effective) and 28 percent thereafter (plus a 5 percent surcharge at certain high income levels).

There is still time to take advantage of the old tax law before the new one goes into effect; what the new law does to IRAs.

Is Your IRA Still A Good Deal?

Will you still want to contribute to an individual retirement account in 1987? Maybe.

Tax reform did not eliminate the IRA, and if you and your spouse have combined adjusted gross income of less than \$40,000, nothing has changed. Nor has anything changed if your income is higher and neither of you is covered by an employer's qualified retirement or profit-sharing plan or annuity.

If, however, you or your spouse is covered by such a program, your allowable deduction from income of the amount put in an IRA will decrease as your income exceeds \$40,000 (\$25,000 for singles). No deduction will be allowed for combined adjusted gross incomes over \$50,000 (\$35,000 for singles).

Those below the phase-out or not covered by a qualified pension, profit-sharing or annuity plan should continue contributing to the IRA and taking the deduction.

Others may contribute up to the \$2,000 or \$2,250 limit (the latter applies if your spouse is not employed) to a nondeductible IRA. For recordkeeping and administrative accuracy, the new IRA must be in a separate account.

Your contributions will accumulate interest income without being taxed. The income is taxed when paid to you from the IRA, but early withdrawal is subject to penalty taxes.

Although you might be able to earn more from other investments—deferred annuities, whole life insurance or a tax-exempt municipal bond fund—you might not. And the IRA—which you now can invest in almost anything, from stocks to U.S. gold and silver coins—is far more flexible.

One IRA investment rule has changed. Traditional wisdom has held that capital appreciation is largely wasted in an IRA, since it would be fully taxed on withdrawal, without favorable capital gains treatment. Now that capital gains are to be treated the same as ordinary income, that no longer applies.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

It's Your Money

By Ray Brady

We all know that tax reform will give many Americans (not all, let it be added) some tax relief. We know, too, that most companies will be paying higher taxes. Where do investors stand in this?

Returns will change on many investments, including municipal bonds, real estate syndicates and stocks.

The biggest change, of course, is the end of the tax break on long-term capital gains. Now, an investor who sells stock held six or more months pays federal income tax on only 40 percent of any profit. Which means the maximum rate is 20 percent. In the future, all the profit will be taxed, though federal income tax rates, limited to 15 and 28 percent brackets, will be lower. Which means the investor will pay as much as 28 percent—actually, 33 percent for a large chunk of upper income as of 1988.

(Why 33 percent? To phase out benefits for affluent taxpayers of the 15 percent bracket, there will be a surcharge—on a joint return it will start at \$71,900 and end at \$149,250. In 1987, a transitional year when the top income tax rate will be 38.5 percent, the long-term capital gains rate will be capped at 28 percent.)

The forthcoming end of the capital gains break is already having an effect on stock prices—it was one of several reasons for the sell-off on record volume September 11, when the Dow Jones Industrial Average plummeted 86.61 points.

Many buyers of stock want to pay Uncle Sam as little as possible of paper profits they have made over the years of the bull market. Also, there are the owners of some of the companies whose stock is involved. Again and again, I run into people who started businesses years ago, went public and now have millions of dollars locked up in company stock. Many are now selling. Their reasoning: Eight percentage points in taxes, particularly if millions are involved, are a mighty bite.

Starting next year, with the six-month waiting period gone, there will be much more in-and-out market activity, most investment professionals feel. Also, tax reform will take a lot of profit

This wry sign appeared at the New York Stock Exchange September 11, the day of a huge plunge triggered by assorted factors including future tax rates.



PHOTO: TOM SOBOLIE—BLACK STAR

out of real estate deals and, of course, tax shelters. So, says Martin Zweig, highly respected editor of the *Zweig Forecast*: "Stocks and bonds will be more attractive, just as real estate and tax shelters will be less attractive."

There are extra risks in shooting for fast, short-term gains. So even if there is more volatility in the market, the investor may do well to follow old-fashioned principles, such as looking for a stock that seems undervalued and then hanging on until it reaches the price that is nearest its worth.

Geraldine Weiss, a La Jolla, Calif., investment adviser, believes there will be a pickup in popularity of stocks that pay good dividends, a change from the focus on growth-oriented issues in recent years. Her point: The lower tax brackets mean dividends paid many Americans will be hit less hard by Uncle Sam.

In what kinds of industries should you invest to cash in on tax reform?

Donald Trott, a partner in the New York investment firm of Mabon, Nugent & Company, says: "Reform could potentially give the consumer another

Tax reform changes many aspects of investing, and that means investors need to re-examine their strategies.

shot in the arm." The less money people pay in taxes, the more they have to spend. That could help buoy stocks of consumer products companies.

Trott admits, however, that nobody knows yet what tax reform's full economic effect will be. He advises patience, arguing that the market may trend downward until investors can see just how the consumer and the economy react to reform.

If you think stock investors may be uncertain about the future, consider the poor fellow who has a portfolio full of tax-exempt bonds.

There has been a lot of discussion about how banks and casualty insurance companies will have new taxes to pay on tax-exempt bonds and how some types of bonds will no longer be tax-exempt. One point stands out: Municipals will be fewer in the future because the new law restricts tax exemptions.

In 1985, for example, about \$205 billion in municipal bonds came to market. For best estimate for 1987: no more than \$85 billion.

That could increase municipals' value, say bulls on the bonds. The bulls concede that lower income tax rates will make a bond's tax-free status less advantageous for the buyer. But they urge a look at these numbers: Even with a 28 percent tax rate, a municipal paying 7 percent will bring you the same number of after-tax dollars as a taxable bond paying 9.72 percent.

There will be curtailment of rights to issue so-called private purpose bonds—such as those for sports stadiums. But if you have one of those bonds now, its tax-free status will remain.

Certain private purpose state and local bonds will be subject to the alternative minimum tax, which is designed to ensure that everyone pays something to the Internal Revenue Service. That tax, however, will apply only to individuals who have so-called preference items on their returns—certain intangible drilling costs, for example—and if the private purpose bonds were issued after Aug. 7, 1986.

Sound complicated? Well, it is just one more sign that tax reform will change the rules of investing. The investor should take care not to be caught napping. ■

Ray Brady is the business correspondent for CBS News.

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Higher Tax Rates To Lower Deficits?

The federal deficit, which hit a record \$230 billion in fiscal 1986, is expected to top \$163 billion in fiscal '87 even though Congress has approved a Gramm-Rudman-Hollings deficit target of \$144 billion for the year. Rep. Dan Rostenkowski (D-Ill.), one architect of the tax reform legislation that dropped the maximum individual income tax rate to 28 percent and the top business rate to 34, now calls for increasing rates to shrink the deficit. The administration opposes any tax increase, urging spending cuts instead. Should Congress raise tax rates to reduce the deficit?

2. Consumption Tax To Cut The Deficit?

Further spending reductions would bite into the "muscle" of many federal programs, says Sen. David Durenberger (R-Minn.). His solution to runaway deficits is a national consumption tax, which would tax spending, not income. Proponents argue that a consumption tax would stimulate long-term economic growth by encouraging savings, thus holding down capital costs. Opponents argue that such a tax would put a disproportionately heavy burden on the poor and would hurt the economy. Should Congress approve a national consumption tax to cut the deficit?

3. Eliminate Penny And Dollar Bill?

A Washington lobbying group advocates replacing the dollar bill with a dollar coin. To make room for the coin in cash registers, the group urges eliminating the penny. (Merchants would round off final cash sales to the nearest nickel.) The change would benefit vending machine companies and save the government millions, because coins last longer than bills. The Treasury, still storing 500 million copies of the last dollar coin—the Susan B. Anthony—opposes the idea. Should Congress replace the dollar bill with a dollar coin and eliminate the penny?

Verdicts On September Poll

Here is how readers responded to the questions in the September issue's Where I Stand poll.

	Yes	No	Undecided
Should employers continue to be allowed to require retirement at age 70?	45%	48%	7%
Should the Internal Revenue Service become self-supporting?	20%	73%	7%
Should Congress embargo trade with South Africa and require U.S. firms to leave?	17%	72%	11%



Send in your vote on the inserted postpaid card. Explanations of your views on any of these questions are also welcome as letters to the Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

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Retirement Plans

What are ESOPs, and how can I get a sample form for setting one up?
E.H.P., Glens Falls, N.Y.

Employee stock ownership programs, or ESOPs, are retirement plans to which the employer makes tax-deductible contributions, thereby helping employees build equity in their company.

Michael Keeling, general counsel for the ESOP Association in Washington, says that ESOPs present several advantages for small business owners. A business can borrow money to fund the plan—in effect providing a way for the business to raise tax-free cash. Also, under the law on ESOPs—essentially unchanged by tax reform—the business owner who wants to sell out can sell his or her share of the business to the plan without paying taxes on any gain, as long as the money is reinvested in qualified securities.

Finally, by providing employees with equity in the company, Keeling says, the entrepreneur helps build their morale and incentive to make the company grow—and to keep it from going downhill.

There is no such thing as a form for ESOPs that allows you just to fill in the blanks, Keeling says. He stresses that you must get professional legal assistance when setting up an ESOP for your company. The National Center for Employee Ownership offers a casebook containing examples of ESOPs and a bibliography of writings on the subject. For more information, contact the NCEO, 927 South Walter Reed Drive, Arlington, Va. 22204; or call (703) 979-2375.

Import Interest

For the past three years, I have been trying to find overseas suppliers for products I want to sell in the United States. So far, no luck. I want to be able to get clothing, china, linen and brass objects. Any ideas?
B.C.K., Montgomery, Ala.

Sandra Zwerling, director of communications at the American Association of Exporters and Importers in New York, says you must first identify the countries from which you want to import merchandise. Once you know the

countries, call the United Nations in New York at (212) 487-5065. Ask for the consul general's office of each country. Personnel there will send you in the right direction.

Licensing Home Care

I am considering opening a boarding-house for a few elderly residents. Do I need a license?
C.C., Salem, Ohio

Yes. Ohio has licensing requirements for "board and care" facilities, homes that provide room, meals and personal care, such as dressing or bathing. You must undergo a precertification inspection that evaluates the condition of the home, fire safety provisions, staff training and your own character. For more information, contact the Ohio Department of Health, 246 N. High Street, Columbus, Ohio 43216.

Cracking The Mystery

I repair concrete floors and am trying to resolve the problem of water seepage for a client. I am convinced the seepage is due to hairline cracks in the concrete. What methods can be used to detect such cracks?
K.L.C., Fort Knox, Ky.

Hairline cracks, which generally do not penetrate deeply into the concrete, can be best found by simply wetting the surface with water. Art Mullkoff, American Concrete Institute staff engineer, says that the wet crack becomes readily apparent. Sonar technology is available for detecting honeycombing within the concrete.

For more information, contact the American Concrete Institute, Box 19150, Redford Station, Detroit, Mich. 48219; or call (313) 532-2600.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Making it

Two happy combinations: Beach Boys and baseball, and a husband and wife who cleaned up doing dishes.

Music And Sports—A Team Effort

What do the Beach Boys and baseball have in common? Both are all-American symbols of summer fun. And together they add up to John Carbray's offbeat entertainment business that mixes rockers and rollers with pitchers and batters.

Carbray is president of Projects West, of San Jose, Calif., which sets up big-name concerts right after major league baseball games. Teams that add a concert attract more fans, including a new clientele of musical enthusiasts who might find themselves liking baseball. "Our concerts are something like the grand finale to a fireworks show," Carbray, 45, says.

There is not much question that Carbray's concerts are igniting sparks.

Projects West put on its first show in April, 1984, when it hired the Beach Boys to play at the Houston Astrodome after a game between the Houston Astros and Philadelphia Phillies. That game attracted 29,000 fans, double the Astros' normal attendance. The story has been pretty much the same ever since. The company has orchestrated performances by entertainers like Jimmy Buffett and the group Three Dog Night at 45 games—mostly baseball—and has garnered more than \$4 million in revenues.

Of course, promotion gimmicks are not new to professional sports. Teams have long offered the likes of bat nights and helmet nights, when cheap versions of team equipment are given away. But some team owners say they like concerts better because they are more likely to attract people who might not otherwise ever attend a game. If they should enjoy the game, as well as the concert, they might return.

Another plus, says Pat Gallagher, a spokesman for the San Francisco Giants, is that the concerts appeal mostly to 18-to-34-year-olds. This age group makes its own buying decisions, whereas premium giveaways appeal mostly to children, who can only indirectly influence their parents to buy tickets.

Carbray was introduced to the idea of

John Carbray of Projects West is bringing big-league musical groups like the Beach Boys to big-league baseball stadiums (this one is in San

Diego). Fans—often twice as many as normal—see a game, followed by a concert.



PHOTO: BOB GREEN—BLACK STAR

mixing music with sports in 1981, when he was general manager of the San Jose Earthquakes soccer team. A promoter staged a concert after an Earthquakes match in Anaheim, Calif., boosting attendance fivefold to about 25,000. Financial problems eventually drove that promoter out of business, leaving the field wide open for Carbray.

Projects West's profits have totaled an unimpressive \$50,000 so far. But that is because Carbray laid out \$500,000 to buy his own equipment, including four portable steel stages that are assembled and disassembled like giant erector sets.

As Carbray moves into his third year, the equipment is almost paid off, and the figures are sounding better. If he does only 16 shows this year—one-third fewer than he did in 1985—Carbray says he will still post nearly \$500,000 in net income.

He thinks college football could become a bigger market than professional baseball. "Baseball teams go hot and cold," Carbray says. "Most college football teams build a bigger base of fans every year."

At one point, Carbray was president of the Northwest League, a Class A baseball minor league in Washington and Oregon. Then there was his job with the Earthquakes. Although sports administration grew old, he picked up several valuable pointers about business over the years.

Take that \$500,000 purchase of portable steel stages, for example. Although the price tag sounds heady, Carbray figures he would have spent that much money just renting stages for his first 20 concerts.

At Arlington Stadium, where the Texas Rangers play, Carbray found that he couldn't squeeze his stages through any of the stadium's gates to get them on the playing field. So he cut one of the stages in half and refastened the halves on the field.

It didn't take Carbray long to work hand-in-hand with production crews to assemble and disassemble his company's stages and sound equipment. "Nobody will tell me that it takes 16 guys to put up a stage when I know that it can be done with eight," he says.

—Steven B. Kaufman

Making It

Glass With Class

When Agnes Jansen went on her first buying trip to New York for the store she and her husband, Albert, started seven years ago, she took \$18,000 in cash. She carried it in her purse by day and, at night, "I went to bed with it under my pillow."

She laughs now and says it was "stupid."

But not that stupid. Bud and Aggie, as they are known, were going into the housewares outlet business, and "outlet" then was a dirty word to manufacturers. Even though Aggie was seeking closeouts, many sales representatives refused to sell to her.

But cash up front was a persuasive tool. Aggie, a former department store interior designer, finally made her first purchase—\$18,000 worth of snack sets to be delivered to the barn on the Jansens' 50-acre farm near Reading, Pa.

They had been lifelong residents of St. Louis, Mo., where Bud ran his family's chain of grocery stores. He sold the business and went to work for the buyer, who sent him to Reading to set up a wholesale grocery company. But when his employers wanted Bud to return to the Midwest a few years later, the Jansens decided to stay in the East. They loved their farm and their new community.

With its VF (Vanity Fair) factory outlet complex, Reading was the outlet capital of the mid-Atlantic, drawing shoppers by the busload from Philadelphia, Baltimore and Washington. The Jansens were certain they could combine their experience to run their own outlet store. With America's gourmet cooking craze off and running, they settled on housewares.

They envisioned an enterprise no bigger than a mom and pop store. Instead, it has grown to six Reading China & Glass Company outlets in Pennsylvania, Maine, New Hampshire and Alabama. The Jansens employ 200 people (450 at Christmas) and expect to open a store a year, probably growing to 20.

One trade magazine described the 100,000 square-foot flagship Reading store as a "supermarket of glass, crystal, china, gourmet cookware, decorative accessories and gifts." Here some of the best of names—Waterford, Riedel, Mikasa, Wedgwood, Revere, Farberware—can be found for as much as 75 percent off suggested retail prices. Products range from soup tureens and cookie cutters to small electric appliances and handcrafted Amish quilts. The Reading store includes a bakery and a gourmet food department and

PEOPLE

Once intended to be a mom and pop store, Bud and Aggie Jansen's Reading China & Glass Company has grown to 200 employees and six

outlets. The flagship store occupies an old Schrafft Candy facility (below) in the VF Factory Outlet Complex in Reading, Pa.



PHOTO: T. MICHAEL KEEA



each New England store contains a fine wine shop.

The Jansens were intent on offering customers more value than they felt department stores did. Vendors, they found, had to charge department stores inflated wholesale prices to cover expected "frills," including the privilege of returning unsold goods. Aggie says such practices meant markups of 60 to 80 percent over cost.

Bud told vendors to cut out the frills and "just give us your bare bones, rock bottom F.O.B. price." In return, the Jansens would buy in quantity and not expect to return unsold merchandise, gambling that their purchase decisions were correct.

The result was a 25-to-35 percent reduction in wholesale prices, Bud says. "And then with our lower markup, it's not difficult to sell at half price."

It is not unusual to find Aggie at the

checkout counter, bagging for the cashier, listening to the customers and asking questions.

"It's the greatest opportunity in the world to know what the customer thinks," says Bud, 58.

Reading China & Glass gets most of its customers by word of mouth and does a heavy repeat business. Aggie, 51, recalls with a chuckle how women from Philadelphia's wealthy Main Line used to say their purchases were "for the pool house."

"At first, it was like a disgrace to say they were shopping at an outlet store," she says. "Now they don't care."

The Jansens have been willing to take bold steps to get the best merchandise at the best prices for their customers and to overcome manufacturers' reluctance to sell to them. Once, in New York, when the representative of a French company refused to sell to her, Aggie got so angry she said she was going to Europe then and there to talk with the top people at the home office. She had gone to the airport fully intending to keep her word when the representative reached her and asked her to come back. "We'll talk about this," he said. Now Reading China & Glass is the third largest vendor the company has on the East Coast.

The Jansens no longer have to depend on seconds and closeouts but sell first-quality goods. Outlets have become so respectable, says Aggie, that many of the "companies that said naughty things about outlet stores before now own their own outlets."

—Sharon Nelton

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Editorials

The collapse of the budget-making process; why an unchanged congressional makeup is significant.

Congress Must Regain Control Of Its Machinery For Enacting Budgets

A not-very-funny thing happened in Congress while the public's attention was concentrated on tax reform legislation: The budget-making process collapsed.

The federal government entered a new fiscal year with its spending controlled by a one-week authorization plan adopted on an emergency basis. The action was necessary because Congress had been unable to agree on a longer-term stopgap authorization. That, in turn, had become necessary because the lawmakers had not completed action by the September 30 deadline on any of the 13 regular appropriations bills required to keep the government running in the fiscal year beginning the next day.

In the absence of the normal one-year spending authority provided by appropriations bills for federal government operations, Congress bundled a total of \$556 billion into a single package that could be passed with one vote. (Programs with permanent spending authority, such as Social Security, make up the balance of the trillion-dollar budget for fiscal 1987.) That package, known technically as a continuing resolution, gears new spending levels to those of the pending appropriations bills, and tough decisions on final spending levels are put off.

Continuing resolutions aimed at giving Congress time to finish action on appropriations measures are nothing new on Capitol Hill. They have been used in the past, albeit to a lesser degree. But recent trends are disturbing. The continuing resolution, which amounts to an admission of failure to meet a basic responsibility, has become an increasingly important part of the fiscal process in Congress. This year's use of the device as a substitute for all 13 appropriations bills represents a serious breach of accountability.

The failure would not be so serious if it could be blamed on a lack of efficient procedures for producing the budget. But major procedural changes have been made repeatedly in hopes of apply-



ILLUSTRATION: CAMERON SEELACH

ing the pressure needed to have a budget ready at the beginning of the fiscal year to which it applies.

What effect have those changes had? Rep. Silvio O. Conte (R-Mass.), senior Republican on the House Appropriations Committee, delivers a blunt answer: "The whole system has broken down."

Congress was trying, in the waning days of its 1986 session, to pull together a jury-rigged budget that would at least take the government into next year, when new efforts will be made to repair the budget machinery.

The real solution will not come, however, until the legislators realize that their inability to deal effectively with such a fundamental responsibility as drafting a budget on time does not result from lack of tools but from lack of will to use them properly.

Can The Republican Party Avoid The Off-Year Election Jinx?

The off-year congressional elections being held this month include many hard-fought contests in which the results could be very close. Understandably, each such race has generated much interest in the state where it is being held.

Nationally, however, there has been relatively little interest in the congressional elections as a whole. There is a widely held belief that the elections will not have much impact on the country's future. 'Tain't necessarily so.

True, it appears that the present division of Congress will continue for at least two more years, with only slight changes in the margins by which the Republicans now control the Senate and the Democrats run the House of Representatives.

But the prospect of little change is significant.

Traditionally, the party of an incum-

bent President loses many congressional seats in an off-year. Off-year races give the opposition an opportunity to turn the balloting into a vote of confidence on the presidential record, which usually reflects a normal accrual of liabilities.

Democrats tried this year to build a case against the Reagan administration as part of their strategy for regaining control of the Senate. The attempt never got off the ground, and the Democrats have yet to find an effective means of regaining their lost political fortunes.

Because Republicans are fighting the off-year tradition, as well as the Democrats, minimal losses for them in the congressional voting would be recognized as a show of strength and bode well for their goals of eventually controlling the House while holding on to the Senate and the White House.

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